



TRAUSON

Trauson Holdings Company Limited 創生控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 325



GLOBAL OFFERING

Global Coordinator, Bookrunner and Sponsor



Joint Lead Managers



IMPORTANT

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



TRAUSON HOLDINGS COMPANY LIMITED

創生控股有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 212,828,000 Shares comprising 187,500,000 new Shares and 25,328,000 Sale Shares (subject to the Over-allotment Option)

Number of Hong Kong Offer Shares : 21,284,000 Shares (subject to adjustment)

Number of International Offer Shares : 191,544,000 Shares comprising 166,216,000 new Shares and 25,328,000 Sale Shares (subject to adjustment and the Over-allotment Option)

Offer Price : not more than HK\$3.57 per Share plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)

Nominal value : HK\$0.10 per Share

Stock code : 325

Global Coordinator, Bookrunner and Sponsor



UBS Investment
Bank

Joint Lead Managers



UBS Investment
Bank



建银国际
CCB International

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" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies 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.

The Offer Price is expected to be fixed by agreement between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 23 June 2010 and, in any event, not later than Friday, 25 June 2010. The Offer Price will not be more than HK\$3.57 and is currently expected to be not less than HK\$2.38. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$3.57 for each Share together with a brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%.

The Global Coordinator, on behalf of the Underwriters, may reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK\$2.38 to HK\$3.57 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Such notice will also be available at the website of the Stock Exchange at www.hkex.com.hk and our website at www.trauson.com. If applications for the Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares and/or the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and we are unable to reach an agreement on the Offer Price by Friday, 25 June 2010, the Global Offering will not become unconditional and will lapse immediately.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Global Coordinator (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on Tuesday, 29 June 2010. Such grounds are set out in the section headed "Underwriting" in this prospectus. 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 US Securities Act and may be offered or sold only (a) in the United States to QIBs in reliance on Rule 144A under the US Securities Act or another exemption from, or a transaction not subject to, registration under the US Securities Act and (b) outside the United States in accordance with Rule 903 of Regulation S under the US Securities Act.

15 June 2010

EXPECTED TIMETABLE

Application lists open⁽²⁾11:45 a.m. on Monday, 21 June 2010

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

Application Forms 12:00 noon on Monday, 21 June 2010

Latest time to give **electronic application**

instructions to HKSCC⁽³⁾ 12:00 noon on Monday, 21 June 2010

Latest time to complete electronic applications

under **White Form eIPO** service through

the designated website at www.eipo.com.hk⁽⁴⁾11:30 a.m. on Monday, 21 June 2010

Latest time to complete payment for **White Form**

eIPO applications by effecting internet banking

transfer(s) or PPS payment transfer(s) 12:00 noon on Monday, 21 June 2010

Application lists close12:00 noon on Monday, 21 June 2010

Expected Price Determination Date⁽⁵⁾ Wednesday, 23 June 2010

Announcement of:

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

to be published in the South China Morning Post

(in English) and the Hong Kong Economic Times

(in Chinese) on or beforeMonday, 28 June 2010

Results of allocations in the Hong Kong Public Offer

(with successful applicants' identification document

numbers, where appropriate) to be available

through a variety of channels (see "How to

apply for Hong Kong Offer Shares")⁽⁶⁾Monday, 28 June 2010

Results of allocations in the Hong Kong Public Offer

will be available at www.iporesults.com.hk

with a "search by ID" functionMonday, 28 June 2010

Despatch of share certificates, **White Form e-Refund**

payment instructions and refund cheques on or before⁽⁷⁾Monday, 28 June 2010

Dealings in the Shares on the Stock Exchange

expected to commence at 9:30 a.m. onTuesday, 29 June 2010

EXPECTED TIMETABLE

Notes:

- (1) All references to time and dates refer to Hong Kong local time and dates. 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.
- (2) 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 Monday, 21 June 2010, the application lists will not open on that day. Particulars of the arrangements are set out in the section headed “How to Apply for Hong Kong Offer Shares — VI. When may applications be made — Effect of bad weather on the opening of the application lists” in this prospectus.
- (3) Applicants who wish to apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — V. Applying by giving electronic application instructions to HKSCC” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) The Price Determination Date is expected to be on or around Wednesday, 23 June 2010 and, in any event, not later than Friday, 25 June 2010. If, for any reason, the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and we are unable to reach an agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately.
- (6) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Stock Exchange’s website at www.hkexnews.hk. Our Company’s website (www.trauson.com) will also publish a hyper-link to the aforesaid website during the same period.
- (7) **Share certificates will only become valid certificates of title provided that the Hong Kong Public Offer has become unconditional and the Hong Kong Underwriting Agreement has not been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.**

You should carefully read the sections headed “Underwriting,” “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus for details relating to the structure of the Global Offering and how to apply for Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offer 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.

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 Global Coordinator, the Sponsor, 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 aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document 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 that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading producer of orthopaedic products in China. We design, manufacture and sell a broad range of trauma and spine orthopaedic implants and related surgical instruments. According to a market research conducted by China Orthopaedics and commissioned by us, we were the largest producer of trauma products, and one of the top three producers of spine products, among the PRC orthopaedic product manufacturers in 2009 in terms of market share.

Our products can be broadly classified into the following three categories:

- Trauma products — which are used for the surgical treatment of bone fractures of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet due to accidents or pathological or other reasons. Our trauma products are comprised of internal fixation devices such as cannulated and solid intramedullary nails, and standard and locking plates and screws.
- Spine products — which are used for the surgical treatment of spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons. Our spine products include pedicle screws, meshes, cages for spinal fusion, hooks, and anterior and posterior cervical fixation systems.
- Other products — which include orthopaedic cables, external fixators and surgical instruments.

We sell our products mainly under our own brands, Trauson and Orthmed. We also produce specialty surgical instruments under an OEM arrangement for a leading global medical device manufacturer. In addition, in May 2010 we entered into a distribution arrangement to distribute third-party produced spine products and surgical instruments for on-sale by our authorised distributors in the PRC to complement our existing product lines.

According to China Orthopaedics, we are one of the early entrants into the PRC orthopaedic market.

The PRC orthopaedic market is fragmented and dominated by several large international and domestic manufacturers and a number of small regional manufacturers which primarily operate in their local regions. According to the market research by China Orthopaedics, the PRC trauma orthopaedic products market grew from RMB950 million in 2006 to RMB1,670 million in 2009 representing a CAGR of 20.7% over the four-year period, the PRC spine orthopaedic products market grew from RMB780 million in 2006 to RMB1,490 million in 2009 representing a CAGR of 24.1% over the four-year period, and the PRC joint orthopaedic products market increased from RMB990 million in 2006 to RMB1,800 million in 2009 representing a CAGR of 22.1% over the

SUMMARY

four-year period. Collectively the three segments expanded from RMB2,720 million to RMB4,960 million from 2006 to 2009 representing at a CAGR of 22.2%. According to China Orthopaedics, our Group's sales accounted for approximately 8.4% of the PRC trauma orthopaedic products market and approximately 3.0% of the PRC spine orthopaedic products market in 2009.

We believe the recently announced healthcare reform in the PRC and the expected resulting increase in investment in the healthcare sector will benefit the orthopaedic market and producers with a wide distribution reach such as ourselves. In particular, we believe the reform's emphasis on primary and essential care is conducive to the growth in demand for trauma products as trauma injuries require immediate and localised medical response that qualifies as the type of primary and essential care provided by provincial, regional or local medical facilities favoured by the reform. We believe our business will also benefit from the expected growth in elective surgeries as a result of China's rising living standards, the spread of wealth into inner China, China's increased urbanisation and the mobility of the population, the gradual ageing of China's population and the increasing population of surgeons in China who are equipped to perform elective surgeries.

As at 31 December 2009, we had obtained from the PRC state or local food and drugs administration 87 product registration certificates, 29 of which are classified as Class III medical devices denoting that they meet or surpass the highest safety standards applicable to the design and manufacture of medical devices in China. In 2007, both Trauson Jiangsu and Orthmed Changzhou, being our two principal operating subsidiaries, were among the first 13 orthopaedic companies certified to have met the non-mandatory Good Manufacturing Practices, compliance of which will become mandatory for all medical device manufacturers in the PRC when they apply for or renew their product registration certificates, starting from 1 July 2011. Outside China, Trauson Jiangsu has obtained the USFDA 510(k) clearances for four types of products that it produces. We have also obtained CE marks issued by TÜV SÜD Product Service GmbH in Germany for an approved range of our products. The 510(k) clearances and CE marks allow us to market and sell the relevant products in the United States and throughout the European Economic Area, respectively. While our ability to satisfy stringent safety requirements and quality control standards set by the USFDA and the European Union serves to demonstrate that we are sufficiently competitive with major multinational producers in terms of quality, our lower production cost base enables us to maintain a pricing advantage over our multinational competitors. Our appointment by a US-based leading global medical device manufacturer to produce OEM speciality surgical instruments is a testament to our ability to produce quality products at competitive pricing.


We are headquartered in Changzhou, Jiangsu Province. We sell our products to distributors and in some cases through logistic companies and provide after-sale services to distributors and their hospital customers. Since our inception, we have grown our customer base and distribution network to over 390 distributors covering 30 provinces, autonomous regions and municipalities in China. As at 31 December 2009, we were an approved orthopaedic product supplier of over 2,500 hospitals in China.

In some cases, we sell our products to distributors through logistic companies, which are also licensed distributors in China. In these cases, our sales are made to the logistic companies, and who will then on-sell our products to distributors located within the logistic companies' respective

SUMMARY

designated sales territories. Under such arrangements, we are able to reduce certain administrative burden (such as purchase order processing, invoicing and payment collection) as we work with fewer parties on a day-to-day basis. By reducing the number of immediate customers we interface with, we are able to consolidate our customer deliveries into a single delivery to a logistic company and thereby reducing our freight costs. On the other hand, although we agree not to sell our products directly to distributors in the logistic company's designated sales territory, we maintain our relationships with the distributors by controlling hospital authorisations (without which distributors are not able to sell to hospitals), negotiating key terms of each distributor's distribution agreement such as its annual sales target, sales territory and credit period and by providing after-sale services. For 2007, 2008 and 2009, revenue generated from the sale of our products to logistic companies accounted for 5.3%, 7.4% and 10.6% of our total revenue, respectively. We expect our revenue generated from the sale of our products to logistic companies to further increase in 2010.

All of our trauma and spine products are implanted products. For 2007, 2008 and 2009, revenue generated from the sale of our trauma and spine products accounted for 87.2%, 79.7% and 78.8% of our total revenue, respectively.

We believe the quality of our products has enabled us to achieve strong brand recognition in the PRC. In 2007, our Trauson trademark  was recognised as a "China Well-known Trademark" (中國馳名商標). According to China Orthopaedics, Trauson Jiangsu is the only company in the PRC orthopaedic industry to have attained such status.

We recorded revenue of RMB131.6 million, RMB173.7 million and RMB211.5 million for the years ended 31 December 2007, 2008 and 2009, respectively, representing a CAGR of 26.8%. Our profit before tax was RMB54.1 million, RMB74.8 million and RMB94.0 million in 2007, 2008 and 2009, respectively, representing a CAGR of approximately 31.8% and our profit attributable to owners of our Company was RMB55.7 million, RMB64.8 million and RMB82.2 million in 2007, 2008 and 2009, respectively, representing a CAGR of 21.4%.

OUR COMPETITIVE STRENGTHS

Our Directors believe that we benefit from, among other things, the following competitive strengths:

- We are well positioned to benefit from the recent healthcare reform in China and the growth of China's orthopaedic market.
- We are the largest trauma producer and one of the top three leading spine producers in China.
- We have established an extensive distribution and sales network and a large base of hospital customers which spread across 30 provinces, autonomous regions and municipalities in China and cover 29 countries and territories internationally.
- We are able to deliver high quality products and services in a cost-efficient manner.
- We have an extensive product portfolio and a number of product candidates in the pipeline.

SUMMARY

OUR STRATEGY

We aim to become the dominant player in the orthopaedic industry in China. To achieve our goal, we plan to implement the following strategies:

- Further broaden our distribution and sales network and hospital customer base.
- Further exploit our existing distribution and sales network and hospital customer base.
- Acquire or form cooperative alliances with orthopaedic manufacturers to further expand our geographical coverage and increase our product offering and market penetration.
- Capitalise on our high product quality and low production cost base to increase overseas sales.
- Strengthen our research and development capabilities.

RISK FACTORS

We believe that there are certain risks involved in our operations. Most of these risks are beyond our control and can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in China; and (iv) risks relating to the Global Offering. Set forth below is a summary of the risks referred to above. For details, please refer to the section headed “Risk Factors” in this prospectus.

Risks relating to our business

- We depend on distributors for a substantial portion of our revenue. Failure to maintain relationships with our distributors would materially and adversely affect our business.
- Our business, prospects and reputation may be materially and adversely affected by actions taken by our distributors.
- Our business is subject to intense competition, which may reduce demand for our products and materially and adversely affect our business, financial condition, results of operations and prospects.
- We are subject to product liability exposure and have limited insurance coverage. Any product liability claims or safety-related regulatory actions could require us to pay substantial damages, harm our reputation and materially and adversely affect our business, financial condition and results of operations.
- Failure to manage our growth could strain our managerial, operational and other resources, which could materially and adversely affect our business and prospects.
- We may be subject to intellectual property infringement claims and successful claims of infringement could materially and adversely harm our business and reputation.
- If we are unable to obtain adequate supplies of the required materials that meet our production standards at acceptable costs, our ability to accept and fill product orders with the required quality and at the required time could be restricted, which could materially and adversely affect our business, financial condition and results of operations.
- Unauthorised use of our brand name by third parties may adversely affect the value of our brand name, reputation and business; legal actions (including litigation) to enforce our rights to our brand name may involve significant costs and divert of our resources.
- If we fail to obtain or maintain applicable regulatory clearances or approvals for our products, or if such clearances or approvals are delayed, we will be unable to commercially distribute and market our products at all or in a timely manner, which could significantly disrupt our business and materially and adversely affect our sales and profitability.

SUMMARY

- If we fail to successfully identify, acquire or complete acquisitions, or identify or form cooperative alliances, or otherwise successfully execute our expansion plans, our growth and prospects may be adversely affected.
- Our revenue and profitability could be materially and adversely affected if there is a disruption to our existing arrangements with our OEM customer.
- If we do not have a sufficient number of doctors adopt our products or hospitals approve us as their suppliers, our results of operations could suffer.
- Our prospects are dependent upon the successful commercialisation of new products. If we are unable to successfully develop new products or expand our product line, our business and financial condition may be adversely affected.
- We depend on our key personnel, and our business and growth may be severely disrupted if we lose their services.
- If any major logistic company that we use fails to meet its commitments and deliver our products to distributors or fails to settle its trade payables due to us in full, our business and results of operations may be adversely affected.
- Some of our future revenue may be derived from countries that are subject to US OFAC sanctions. This may limit our ability to pursue business opportunities in the United States or obtain financing from the United States.
- If we fail to protect our intellectual property rights, it could harm our business and competitive position.
- Our operations are subject to hazards and natural disasters that may affect our operations and may not be fully covered by our insurance policies.
- We are subject to risks relating to the operation of our production facilities.
- We may not be able to secure additional funding in the future to fund our operations or expansion plans.

Risks relating to our industry

- The PRC healthcare industry is highly regulated, and the regulatory framework, requirements and enforcement trends may change in a manner adverse to our business.
- If the PRC government decides to impose price control on our products, our business, profitability, results of operations and prospects would be materially and adversely affected.
- We are subject to risks in relation to actions taken by us, our employees, our distributors or our affiliates that constitute violations of anti-corruption measures taken by the PRC government to prevent fraud and abuse in the healthcare industry. Our failure to comply with these measures, or effectively manage our employees, distributors and affiliates, could adversely affect our reputation, results of operations and business prospects.
- We are subject to various environmental, safety and health regulations in the PRC, compliance with which may be difficult or expensive, and any failure to comply with such regulations may render us subject to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licences or permits to conduct our business.

Risks relating to conducting business in China

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

SUMMARY

- The PRC's legal system embodies uncertainties that could materially and adversely affect our business and results of operations.
- It may be difficult to enforce against us, our Directors or our senior management in the PRC any judgements obtained from non-PRC courts.
- Changes in the PRC government policy on foreign investment in China may adversely affect our business and results of operations.
- Our expansion plan may be affected by PRC regulations relating to acquisitions of domestic companies by foreign entities.
- Under the EIT Law, which became effective on 1 January 2008, dividends paid by our PRC subsidiaries may be subject to PRC tax. In addition, we may be considered as a PRC resident enterprise for tax purposes, in which case our global income may be subject to the 25% EIT, and dividends we pay to our overseas shareholders and gains realised from the transfer of Shares by our overseas shareholders may also be subject to PRC withholding tax.
- The outbreak of any severe communicable disease in China, if uncontrolled, may materially and adversely affect our financial condition, results of operations and future growth.
- Our Company is a holding company that relies on dividend payments from our subsidiaries for funding.
- Government control of currency conversion may materially and adversely affect our financial condition, results of operations and ability to remit dividends.

Risks relating to the Global Offering

- There has been no prior public market for our Shares and their liquidity and market price may be volatile.
- You will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- Our ultimate controlling shareholder has substantial influence over our Company and her interests may not be aligned with the interests of our other shareholders.
- Sale or perceived sale of substantial amounts of our Shares in the public market after the Global Offering could materially adversely affect the prevailing market price of our Shares.
- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law, and these laws relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority shareholders may be limited compared to the laws of other jurisdictions.
- We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to certain information obtained from official governmental and other sources contained in this prospectus.
- Prospective investors should not place any reliance on any information contained in the press coverage regarding our Group and the Global Offering.

SUMMARY

INSURANCE

We maintain limited product liability insurance and we self-insured our product liability during the Track Record Period. Our current product liability insurance policies cover up to RMB50,000 per claim and RMB2 million per policy year for Trauson Jiangsu products and up to RMB5,000 per policy year for Orthmed Changzhou products. We have previously made enquiries with a number of leading national insurance companies for additional insurance coverage suitable for our business and operations specially for product liability, however, we were unable to identify any such additional insurance coverage owing to the lack of such insurance product offering at all or at a premium acceptable to us. 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 consistent with the market practice in China for our type of business and operations. As our business expansion efforts have in the past been focused on developing our domestic market, we did not identify or purchase any product liability insurance for our products sold overseas. As we intend to expand our overseas sales in the future, we are looking at purchasing additional product liability insurance to cover our products sold both in the PRC and overseas. We have engaged a professional insurance broker to locate an insurance company which can provide product liability insurance suitable for our business and operations. Currently we are discussing with the insurance broker as to various aspects of such an insurance policy, including how to determine the nature of the liability under a claim and the amount of premium that is reasonable and acceptable to us. There is no assurance that we will be able to identify or purchase additional product liability insurance at costs acceptable to us.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

You should read the summary combined financial information set out below in conjunction with our combined financial statements included in the accountants' report set out in Appendix I to this prospectus, which have been prepared in accordance with HKFRS. The following combined statements of comprehensive income data for the three years ended 31 December 2007, 2008 and 2009, revenue by product category and the summary combined statements of financial position information as at 31 December 2007, 2008 and 2009 are derived from the accountants' report set out in Appendix I to this prospectus. The basis of presentation is set out in note 1 to the accountants' report.

SUMMARY

Summary combined statements of comprehensive income

	For the year ended 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Revenue.....	131,582	173,692	211,485
Cost of sales.....	<u>(54,001)</u>	<u>(58,839)</u>	<u>(62,262)</u>
Gross profit.....	77,581	114,853	149,223
Other income and other gains and losses.....	6,638	3,480	1,094
Distribution and selling expenses.....	(10,474)	(13,822)	(21,431)
Administrative and general expenses.....	(12,648)	(20,697)	(21,411)
Research and development expenses.....	(5,133)	(6,516)	(9,710)
Other expenses.....	(480)	(1,049)	(2,536)
Interest expense in relation to bank loans wholly repayable within five years.....	(1,364)	(1,179)	(846)
Share of loss of an associate.....	—	<u>(232)</u>	<u>(322)</u>
Profit before tax.....	54,120	74,838	94,061
Taxation.....	<u>1,595</u>	<u>(10,006)</u>	<u>(11,882)</u>
Profit for the year and total comprehensive income for the year.....	<u>55,715</u>	<u>64,832</u>	<u>82,179</u>
Attributable to owners of the Company.....	<u>55,715</u>	<u>64,832</u>	<u>82,179</u>

Revenue by product category and as a percentage of our total revenue

	For the year ended 31 December					
	2007		2008		2009	
	RMB '000	%	RMB '000	%	RMB '000	%
Trauma products.....	86,821	66.0	111,827	64.4	135,417	64.0
Spine products.....	27,899	21.2	26,640	15.3	31,366	14.8
OEM products.....	11,575	8.8	27,949	16.1	31,418	14.9
Others.....	<u>5,287</u>	<u>4.0</u>	<u>7,276</u>	<u>4.2</u>	<u>13,284</u>	<u>6.3</u>
Total.....	<u>131,582</u>	<u>100.0</u>	<u>173,692</u>	<u>100.0</u>	<u>211,485</u>	<u>100.0</u>

SUMMARY

Summary combined statements of financial position information

	As at 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Non-current assets.....	77,927	113,931	115,272
Current assets ⁽¹⁾	101,886	142,023	224,196
Current liabilities	93,689	102,680	102,000
Net current assets	8,197	39,343	122,196
Total assets less current liabilities	86,124	153,274	237,468
Non-current liabilities	—	2,318	1,375
Total equity attributable to owners of the Company..	86,124	150,956	236,093

Note:

(1) Including land use rights classified as held for sale.

For additional financial information on the Track Record Period, please refer to the section headed “Financial Information” in this prospectus and the accountants’ report as set out in Appendix I to this prospectus.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

In the absence of any unforeseen circumstances and on the bases and assumptions set out in the section headed “Profit Forecast” in Appendix III to this prospectus, certain forecasted data for our Group for the six months ending 30 June 2010 are set out below:

Forecasted consolidated profit for the six months
ending 30 June 2010 attributable to
the owners of our Company⁽¹⁾⁽²⁾not less than RMB34 million
(equivalent to approximately HK\$39 million)

Unaudited pro forma forecasted earnings per Share
for the six months ending 30 June 2010⁽³⁾not less than RMB0.05
(equivalent to approximately HK\$0.05)

Notes:

(1) Our forecasted consolidated profit for the six months ending 30 June 2010 attributable to the owners of our Company is extracted from the section headed “Financial Information — Profit forecast for the six months ending 30 June 2010” in this prospectus. The bases and assumptions on which the above profit forecast for the six months ending 30 June 2010 have been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the forecasted consolidated profit for the six months ending 30 June 2010 attributable to the owners of our Company based on the unaudited management accounts of our Group for the three months ended 31 March 2010 and a forecast of the consolidated results of our Group for the remaining three months ending 30 June 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 3 of the accountants’ report, the text of which is set out in Appendix I to this prospectus.

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- (2) The above profit forecast for the six months ending 30 June 2010 takes into account the estimated expenses to be borne by our Company of approximately RMB12.1 million in relation to the Global Offering.
- (3) The calculation of unaudited pro forma forecasted earnings per Share is calculated by dividing the forecasted consolidated profit for the six months ending 30 June 2010 attributable to owners of our Company, translated at RMB0.875 to HK\$1.000, by a total of 750,000,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued under the Global Offering had been in issue on 1 January 2010 but without taking into account any Shares which may be allotted and issued or repurchased by us pursuant to the Over-allotment Option, the Issue Mandate and the Repurchase Mandate).

INTERIM REPORT

Our Company's interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules if the Shares are listed on the Stock Exchange.

GLOBAL OFFERING STATISTICS

	<u>Based on an Offer Price of HK\$2.38</u>	<u>Based on an Offer Price of HK\$3.57</u>
Market capitalisation of our Shares ⁽¹⁾	HK\$1,785 million	HK\$2,678 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$0.91 (RMB0.79)	HK\$1.19 (RMB1.05)

Notes:

- (1) The calculation of market capitalisation is based on 750,000,000 Shares expected to be in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised.
- (2) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information" included in Appendix II to this prospectus and on the basis of a total of 750,000,000 Shares expected to be in issue immediately following the completion of the Global Offering. This calculation assumes respective Offer Price of HK\$2.38 and HK\$3.57 and that the Over-allotment Option is not exercised.

DIVIDEND POLICY

Subject to the Cayman Companies Law, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any shareholder or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our general business conditions;

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- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which our Board may deem relevant.

Our future dividend payments to our Shareholders will also depend upon the availability of dividends declared and distributed by our subsidiaries in the PRC. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles, which differ in many aspects from HKFRS. PRC laws also require enterprises located in the PRC to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

Any dividends on the Shares will be declared and paid in Hong Kong dollars on a per Share basis. Any final dividend for a financial year will be subject to our shareholders' approval.

Our future dividend policy is that approximately 25% to 30% of our profits available for distribution will be recommended for distribution for each financial year. The amount of dividends actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year.

Our Company did not declare any dividends for each of the years ended 31 December 2007, 2008 and 2009. On 8 March 2010, Trauson Hong Kong declared dividends of US\$2.0 million to its then sole shareholder Ms Xu, and the dividends were paid in May 2010.

USE OF PROCEEDS

We estimate that the aggregate net proceeds (after deducting underwriting fees and estimated expenses to be borne by our Company) to our Company from the Global Offering, assuming an Offer Price of approximately HK\$2.98 per Share, being the mid-point of the indicative range of the Offer Price of HK\$2.38 to HK\$3.57 per Share, will be approximately HK\$521.4 million (equivalent to approximately RMB456.2 million), assuming that the Over-allotment Option is not exercised and HK\$602.1 million (equivalent to approximately RMB526.9 million), assuming that the Over-allotment Option is exercised in full.

We intend to use the net proceeds we receive from the Global Offering as follows:

- as to approximately HK\$208.6 million (equivalent to approximately RMB182.5 million) or approximately 40% of the net proceeds for the acquisition of new production equipment for our new production facility to enhance our overall production capacity and to upgrade our obsolete production equipment;
- as to approximately HK\$104.3 million (equivalent to approximately RMB91.3 million) or approximately 20% of the net proceeds for market development, investment in research and development in new products and establishing dedicated specialist sales teams to develop targeted growth markets;

SUMMARY

- as to approximately HK\$177.3 million (equivalent to approximately RMB155.1 million) or approximately 34% of the net proceeds for implementing mergers and acquisitions and other cooperative alliances to develop new product offerings; and
- as to the balance of approximately HK\$31.2 million (equivalent to approximately RMB27.3 million) or approximately 6% of the net proceeds for working capital and general corporate purposes.

We are constructing a new production facility for Trauson Jiangsu which is expected to be completed by December 2010. We plan to acquire new equipment for the production of trauma, spine and joint products to enhance our overall production capacity and to upgrade our obsolete production equipment over the course of the next five years starting 2010. The production capacity of Trauson Jiangsu will increase considerably following the relocation of its production facility. The increased production capacity is intended to be utilised for the production of new products in our pipeline as well as for products necessary to support our development of new domestic and overseas markets. For further details of the new production facility and its expected production capacity please refer to the section headed “Business — Production process — Production facilities” in this prospectus.

Part of the net proceeds we receive from the Global Offering will be used for market development. As described in the section headed “Business — Marketing” in this prospectus, we plan to establish and invite orthopaedic surgeons and other practitioners to join an academic round table discussion group and other academic seminars in the less developed cities in the PRC. We will continue to participate in and sponsor international and national medical conferences.

We also intend to apply part of the net proceeds in implementing mergers and acquisitions and other cooperative alliances to develop new product offerings. From time to time, we have discussions with a number of acquisition or alliance targets to explore possible ways of cooperation or alliances. However, as at the Latest Practicable Date, these discussions were still at a preliminary stage and no concrete agreement with any such potential acquisition or alliance targets were close to materialisation.

To the extent that the net proceeds of the Global Offering we receive are not immediately required for the above purposes, we presently intend that such proceeds be placed on short-term deposits with licensed banks or financial institutions and/or invested into money market instruments in Hong Kong and/or the PRC.

In the event that the Offer Price is finally determined at the high-end of the indicative offer price range, the estimated net proceeds we will receive from the Global Offering will be approximately HK\$629.1 million, assuming that the Over-allotment Option is not exercised, and HK\$725.9 million, assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply such additional net proceeds in the same proportions as set out above.

In the event that the Offer Price is finally determined at the low-end of the indicative offer price range, the estimated net proceeds we will receive from the Global Offering will be approximately HK\$413.8 million, assuming that the Over-allotment Option is not exercised, and HK\$478.3 million, assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply the reduced net proceeds in the same proportions as set out above.

SUMMARY

We will not use any of the net proceeds from the Global Offering to fund activities that any US person would be prohibited from undertaking under sanctions administered by OFAC.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder. Assuming an Offer Price of HK\$2.98 per Share (being the mid-point of the Offer Price range of HK\$2.38 to HK\$3.57 and assuming the Over-allotment Option is not exercised), the Selling Shareholder will receive approximately HK\$70.4 million (equivalent to approximately RMB61.6 million), after deducting underwriting fees and other expenses relating to the Sale Shares payable by the Selling Shareholder. Assuming an Offer Price of HK\$2.98 per Share (being the mid-point of the Offer Price range of HK\$2.38 to HK\$3.57 and assuming the Over-allotment Option is exercised in full), the Selling Shareholder will receive approximately HK\$81.3 million (equivalent to approximately RMB71.2 million), after deducting underwriting fees and other expenses relating to the Sale Shares payable by the Selling Shareholder.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms.”

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
“Articles of Association”	the articles of association of our Company conditionally adopted on 10 June 2010, as amended or supplemented from time to time
“associates”	has the meaning given to it under the Listing Rules
“Board” or “Board of Directors”	the board of directors of our Company
“Business Day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for general banking business
“CAGR”	compound annual growth rate
“Cayman Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“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
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCBI”	CCB International Asset Management Limited, a company incorporated in Hong Kong and licensed under the SFO to carry on Type 1 and Type 9 regulated activities
“chairman”	Mr Qian Fu Qing, who is also our chief executive officer and an executive Director. Mr Qian is the spouse of Ms Xu, our controlling shareholder

DEFINITIONS

“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “we”	Trauson Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability on 27 January 2010, and references to “we”, “us” or “our” refer to the Group or, where the context requires, the Company
“connected person”	has the meaning given to it under the Listing Rules
“controlling shareholder”	has the meaning given to it under the Listing Rules and in the context of our Company, means each of Luna Group and Ms Xu
“Directors”	directors of our Company
“Duoliang Investment”	Jiangsu Duoliang Venture Investment Company Limited (江蘇多良創業投資有限公司), a company incorporated in the PRC with limited liability, and is wholly owned by our chairman
“EIT”	the enterprise income tax of the PRC
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) issued on 16 March 2007 and its implementation rules issued on 6 December 2007, both effective 1 January 2008
“GDP”	gross domestic product
“Global Coordinator”	UBS, being the global coordinator and bookrunner of the Global Offering
“Global Offering”	the Hong Kong Public Offer and the International Offering
“GREEN application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the material time

DEFINITIONS

“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Honest Fame”	Honest Fame Investment Limited, a company incorporated in the BVI, which is a wholly-owned subsidiary of CCBI and a shareholder of our Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars”, “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	21,284,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offer”	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price, on the terms and subject to the conditions set out in this prospectus and the Application Forms
“Hong Kong Underwriters”	underwriters of the Hong Kong Public Offer whose names are set out in the section headed “Underwriting — The Hong Kong Public Offer — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 14 June 2010 relating to the Hong Kong Public Offer and entered into by the Global Coordinator, the Hong Kong Underwriters, Luna Group, Ms Xu, Mr Qian Fu Qing and us, as further described in the section headed “Underwriting” in this prospectus
“independent third party”	a party that is not a connected person of our Company
“International Offer Shares”	191,544,000 Shares (comprised of 166,216,000 new Shares and 25,328,000 Sale Shares) being initially offered under the International Offering together, where relevant, with any additional Shares issued or sold pursuant to the exercise of the Over-allotment Option, the number of which is further subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus

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“International Offering”	the offering of the International Offer Shares at the Offer Price outside the United States in accordance with Regulation S, and in the United States only to QIBs in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Purchase Agreement”	the international purchase agreement relating to the International Offering to be entered into on or about the Price Determination Date by the Global Coordinator, the International Purchasers, Luna Group, Ms Xu, Mr Qian Fu Qing and us, as further described in the section headed “Structure of the Global Offering — The International Offering” in this prospectus
“International Purchasers”	the underwriters of the International Offering
“Issue Mandate”	the general mandate given to the Board by our shareholders relating to the issue of Shares, particulars of which are set forth in the paragraph headed “1. Further information about our Company — C. Resolutions in writing of the shareholders of our Company” in Appendix VI to this prospectus
“Latest Practicable Date”	9 June 2010 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 Shares on the Main Board of the Stock Exchange
“Listing Date”	the date, expected to be on or around 29 June 2010, from which the Shares are listed and dealings therein are first permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luna Group”	Luna Group Holdings Limited, a company incorporated in the BVI and wholly owned by Ms Xu, our non-executive Director, which is a controlling shareholder of our Company
“Ministry of Health”	the Ministry of Health of the PRC (中華人民共和國衛生部)
“Ms Xu”	Ms Xu Yan Hua (徐燕華女士), a controlling shareholder and non-executive Director of our Company

DEFINITIONS

“OFAC”	Office of Foreign Assets Control, an agency of the United States Department of the Treasury that administers and enforces, pursuant to the US Economic Sanctions Laws, economic and trade sanctions based on US foreign policy and national security goals against targeted foreign states, organisations, and individuals
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) of not more than HK\$3.57 and is expected to be not less than HK\$2.38, such price to be agreed upon by the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and us on the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares and an “Offer Share” shall be construed accordingly
“Orthmed Changzhou”	Changzhou Orthmed Medical Instrument Company Limited (常州奧斯邁醫療器械有限公司), a company established in the PRC as a wholly foreign owned enterprise with limited liability on 4 December 2002 and a wholly-owned subsidiary of our Company
“Orthmed Hong Kong”	Orthmed (Hong Kong) Medical Instrument Company Limited, a company incorporated in Hong Kong with limited liability on 18 October 2007 and a wholly-owned subsidiary of our Company
“Over-allotment Option”	the option expected to be granted by our Company and the Selling Shareholder to the International Purchasers exercisable by the Global Coordinator on behalf of the International Purchasers under the International Purchase Agreement, to require our Company and the Selling Shareholder to allot and issue/sell up to 31,924,000 additional Shares at the Offer Price, to cover over-allocations in the International Offering, if any
“PRC” or “China”	People’s Republic of China and “Chinese” shall be construed accordingly. References in this prospectus to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“PRC government” or “Chinese government”	central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“Price Determination Date”	the date, expected to be on or around Wednesday, 23 June 2010 and, in any event, not later than Friday, 25 June 2010 on which the Offer Price is to be fixed by agreement between our Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) to determine the Offer Price
“Property Valuation Report”	the summary of valuation and valuation certificates from Jones Lang LaSalle Sallmanns Limited as set out in Appendix IV to this prospectus
“QIB”	a qualified institutional buyer as defined in Rule 144A
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	our reorganisation in preparing for the Global Offering as described in the section headed “History and Development — Reorganisation” in this prospectus
“Reorganisation Agreement”	an agreement dated 24 February 2010 entered into between Ms Xu and our Company in relation to the transfer of the entire issued share capital of Trauson Hong Kong and Orthmed Hong Kong from Ms Xu to our Company
“Repurchase Mandate”	the general mandate to repurchase Shares given to the Board by our shareholders, particulars of which are set forth in the paragraph headed “1. Further information about our Company — C. Resolutions in writing of the shareholders of our Company” in Appendix VI to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the US Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC government authority responsible for matters relating to foreign exchange administration
“Sale Shares”	25,328,000 Shares to be offered for purchase by the Selling Shareholder at the Offer Price under the International Offering

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“Selling Shareholder”	Luna Group, being a controlling shareholder of our Company, who offers 25,328,000 Shares for purchase in the International Offering with its particulars set out in the paragraph headed “7. Other information — H. Particulars of the Selling Shareholder” in Appendix VI to this prospectus
“SFC”	Securities and Futures Commission of Hong Kong
“SFDA”	State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局), the PRC government authority responsible for comprehensive supervision on safety management of pharmaceutical products, medical devices, food, health food and cosmetics
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Rebone”	Shanghai Rebone Biomaterial Company Limited (上海瑞邦生物材料有限公司), a company established in the PRC with limited liability and a non-wholly owned subsidiary of Duoliang Investment
“Shares”	shares with a nominal value of HK\$0.10 each of our Company and a “Share” shall be construed accordingly
“Sponsor”	UBS, being the sponsor of the Listing
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Global Coordinator and Luna Group on or about the Price Determination Date pursuant to which Luna Group will agree to lend in aggregate up to 31,924,000 Shares to the Global Coordinator on the terms set out therein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning given to it under the Listing Rules
“Track Record Period”	the period comprised of the three years ended 31 December 2009
“Trauson Holdings BVI”	Trauson Holdings (BVI) Company Limited, a company incorporated in the BVI with limited liability on 27 January 2010 and a wholly-owned subsidiary of our Company

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“Trauson Holdings HK”	Trauson Holdings (Hong Kong) Company Limited (formerly known as Trauson Holdings Company Limited and Trauson Holding Stock Limited), a company incorporated in Hong Kong with limited liability on 10 November 2008 and a wholly-owned subsidiary of our Company
“Trauson Hong Kong”	Trauson (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability on 18 November 2005 and a wholly-owned subsidiary of our Company
“Trauson Jiangsu”	Trauson (Jiangsu) Medical Instrument Company Limited (創生醫療器械(江蘇)有限公司), a company established in the PRC with limited liability on 18 September 2003 and a wholly-owned subsidiary of our Company
“Trauson Liyang”	Trauson (Liyang) Gardening Development Company Limited (創生(溧陽)農藝發展有限公司), a company established in the PRC and wholly owned by our chairman, Mr Qian Fu Qing
“Trauson Longcheng”	Trauson Longcheng Medical Instrument (Changzhou) Company Limited (創生龍城醫療器械(常州)有限公司) (formerly known as Trauson Medical Instrument (China) Company Limited (創生醫療器械(中國)有限公司), a company established in the PRC as a sino-foreign equity joint venture enterprise with limited liability on 14 April 2008. Prior to completion of its merger with Trauson Jiangsu on 5 February 2010, it was owned by Trauson Hong Kong as to 95% and by Trauson Jiangsu as to 5%
“UBS”	UBS AG, Hong Kong Branch
“Underwriters”	the Hong Kong Underwriters and the International Purchasers
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Purchase Agreement
“US” or “United States”	United States of America, its territories and possessions, any State of the United States and the District of Columbia
“US dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	United States Securities Act of 1933, as amended from time to time
“USFDA”	the Food and Drug Administration of the United States

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“White Form eIPO”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wujin Reserve Centre”	Wujin Land Purchase and Reserve Centre (常州市武進區土地收購儲備中心), an independent third party and an institution directly under the People’s government of Wujin District, Changzhou, Jiangsu Province

For ease of reference, the names of the Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

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

“510(k) clearance”	Section 510(k) of the US Federal Food, Drug, and Cosmetic Act requires manufacturers to notify the USFDA at least 90 days in advance of their intent to market a medical device. A device that has obtained 510(k) clearance can be marketed and sold in the United States
“CE mark”	the CE mark is 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 10 ⁵ cleanroom”	cleanrooms where, pursuant to the Federal Standard 209E, less than 100,000 particles ($\geq 5 \mu\text{m}$ in size) are present per 1 cubic feet of air sample
“degenerative disc disease”	degenerative disc disease is a condition in which the intervertebral discs dehydrate and shrink. Degenerative disc disease causes loss of disc height and reduction of the intervertebral spaces between vertebrae and may cause pain in the affected area. This condition is commonly found in the neck (cervical) and lower back (lumbar) regions of the spine
“femur”	the thigh bone and “femoral” is a medical term referring to the femur
“GMP” or “Good Manufacturing Practices”	good manufacturing practices set out in the “Notice Regarding Commencement of the Pilot Scheme for Adopting Good Manufacturing Practices by Enterprises Engaging in the Manufacture of Sterilised and Implanted Medical Devices” (《關於開展無菌和植入性醫療器械生產企業的質量管理體系規範試點工作的通知》) issued by the SFDA on 12 December 2006 which aims to provide quality assurance and ensure that medical devices subject to the guidelines are consistently produced and controlled to the quality and standards appropriate for their intended uses
“intramedullary” or “IM”	a medical term meaning the inside of a bone
“intramedullary nails” or “IM nails”	intramedullary nails or rods are an orthopaedic implant primarily used for the surgical treatment of bone fractures

GLOSSARY OF TECHNICAL TERMS

“ISO13485”	ISO 13485 specifies the requirements for a quality management system where an organisation needs to demonstrate its ability to provide medical devices and related services that consistently meet customer requirements and regulatory requirements applicable to medical devices and related services
“ISO9001”	ISO 9001:2000 specifies the requirements for a quality management system where an organisation: (1) needs to demonstrate its ability to consistently provide products that meet applicable customer and regulatory requirements; or (2) aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to applicable customer and regulatory requirements
“OEM”	original equipment manufacturer, refers to an entity which manufactures products or components for another entity to repackage and sell under the second entity’s own brand name
“tibia”	the larger and stronger of the two bones in the leg below the knee in vertebrates and connects the knee with the ankle bones
“trauma”	trauma generally refers to any body wounds or injuries caused by sudden physical injury, such as from accident, injury, or impact

RISK FACTORS

You should carefully read and consider all of the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.

RISKS RELATING TO OUR BUSINESS

We depend on distributors for a substantial portion of our revenue. Failure to maintain relationships with our distributors would materially and adversely affect our business.

Most of our sales during the Track Record Period were made to our distributors directly or through logistic companies, and we expect we will continue to rely on adding distributors for our revenue growth. We do not have long-term distribution agreements. As our existing distribution agreements expire, we may not be able to renew such agreements with our preferred distributors on terms acceptable to us or at all. In addition, we seek to limit our dependence on any single distributor by limiting the scope of each distributor's territory, which may make us less attractive to some distributors. Furthermore, we compete for distributors with other leading medical device manufacturers and importers that may have greater visibility, name recognition and financial resources, and a broader product selection than we do. Our competitors may enter into exclusive distribution agreements that restrict their distributors from selling our products. Consequently, maintaining relationships with existing distributors and replacing distributors may be difficult and time consuming. Any disruption of our distribution network, including our failure to renew our existing distribution agreements with our preferred distributors, could negatively affect our ability to effectively sell our products and would materially and adversely affect our business, financial condition and results of operations.

In addition, a substantial portion of our trade receivables at any given time typically represent amounts due from our distributors. Consequently, our cash flows depend on timely receipt of payments from distributors. Historically, our Group has experienced slower collection of trade receivables from distributors and logistic companies in the first quarter of the calendar year. We expect such trend to recur in the future.

Our business, prospects and reputation may be materially and adversely affected by actions taken by our distributors.

We have limited ability to manage the activities of our distributors, including logistic companies, who together accounted for 91.2%, 83.9% and 85.1% of our total revenue for the years ended 31 December 2007, 2008 and 2009, respectively. Our distributors including logistic companies, who are independent from us, could take actions, including one or more of the following, which could have a material adverse effect on our business, prospects and reputation:

- sell products that compete with our products that they have contracted to sell for us;
- sell our products outside their designated territory;
- fail to adequately promote our products;
- fail to maintain the requisite licence or otherwise fail to comply with applicable regulatory requirements when selling our products;

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- fail to provide proper training, complementary surgical instruments and services to our end-users; or
- violate anti-corruption and other laws of China or other relevant jurisdictions.

Failure to adequately manage our distribution network, or non-compliance by distributors or logistic companies with our distribution agreements could harm our reputation and disrupt our sales. Furthermore, we could be held liable for actions taken by our distributors or logistic companies, including any violations of applicable law in connection with the marketing or sale of our products, including China's anti-corruption laws and regulations on the sale of medical devices. The PRC government has increased its anti-bribery efforts in the healthcare sector to reduce improper payments received by hospital administrators and doctors in connection with the purchase of medical devices and other pharmaceutical products. Our distributors or logistic companies may violate these laws or otherwise engage in illegal practices with respect to their sales or marketing of our products. If our distributors or logistic companies violate these laws, we could be required to pay damages or fines, which could materially and adversely affect our financial condition and results of operations. In addition, our brand and reputation, our sales activities or the price of our products could be adversely affected if we become the target of any negative publicity as a result of actions taken by our distributors or logistic companies.

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

The orthopaedic market in the PRC is highly competitive, and we expect competition to intensify. We face direct competition both domestically and overseas across all product lines. For domestic sales, our competitors include several multinational companies and a large number of domestic manufacturers. For overseas sales, our competitors include multinational companies and companies that have local operation in the markets in which we sell our products. Some of our larger competitors may have:

- greater financial and other resources;
- larger variety of products;
- greater pricing flexibility;
- more extensive research and development and technical capabilities;
- patent portfolios that may present an obstacle to our conduct of business;
- greater knowledge of local market conditions where we seek to increase our overseas sales;
- stronger brand recognition;
- larger distribution and sales networks; and
- better support in terms of technical training or surgical instruments provided.

As a result, we may be unable to offer products similar to, or more desirable than, those offered by our competitors, market our products as effectively as our competitors or otherwise respond successfully to competitive pressures. In addition, our competitors may be able to offer discounts on competing products as part of a "bundle" of non-competing products, systems and services that they sell to customers, and we may not be able to profitably match those discounts. Furthermore, our competitors may develop technologies and products that are more effective than those we currently

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offer or that render our products obsolete or uncompetitive. In addition, the timing of the introduction of competing products into the market could affect the market acceptance and market share of our products. Our failure to compete successfully could materially and adversely affect our business, financial condition, results of operations and prospects.

Moreover, some of our internationally-based competitors have established or are in the process of establishing production and research and development facilities in China, while others have entered into cooperative business arrangements with Chinese manufacturers. If we are unable to develop competitive products, obtain regulatory approval or clearance and supply sufficient quantities to the market as quickly and effectively as our competitors, market acceptance of our products may be limited, which could result in decreased sales. In addition, we may not be able to maintain our manufacturing cost advantage.

Our products are generally covered under the government medical insurance programmes whereby patients may be able to claim reimbursements for the cost of our products. The reimbursement percentage varies and ranges from below 50% to 100%, depending on the type of surgery and device. In general, reimbursement percentages tend to be higher for domestically manufactured products than for imported products manufactured by international firms. For further information, please see “Regulatory Framework — Reimbursement under the National Medical Insurance Programme”, and “Industry Overview — Overview of Chinese orthopaedic device market — Pricing, hospital tender and insurance reimbursement” in this prospectus. Following accession to the World Trade Organisation in 2001, China may be required to relax import restrictions and tariffs on imported medical devices. China may also abolish medical insurance reimbursement and other policies that favour domestic manufacturers. Such relaxation and changes may lead to increased competition between our products and foreign imports in the domestic market. The increased competition could materially and adversely affect our business, financial condition and results of operations.

In addition, we believe that corrupt practices in the medical device industry in China exist. To increase sales, certain manufacturers or distributors of medical devices may pay kickbacks or provide other benefits to hospital administrators and doctors who make procurement decisions. Our distribution agreements give us the right to terminate the contract if our distributors are sued or we suffer damage to our reputation as a result of our distributors’ failure to comply with applicable law. As a result, as competition intensifies in the medical device industry in China, we may lose sales, customers or contracts to competitors.

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

Our orthopaedic products are used in the surgical treatment of patients. In China, medical devices are classified according to a catalogue issued by the SFDA into three different categories, Class I, Class II and Class III, depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. A number of our products including all

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of our trauma and spine products are implanted products, which are classified as Class III, denoting that they generally pose high risk to the human body. Accordingly, our products expose us to potential product liability claims if their use causes or is alleged to have caused personal injuries or other adverse effects.

Further, in May 2010 we entered into a distribution arrangement to distribute third-party produced spine products and surgical instruments in the PRC. Since we do not control the manufacturing process of these products, we have limited ability to ensure their quality and safety. We have limited indemnity from the manufacturer of these products. These factors combine to increase our exposure to potential product liability.

Any product liability claim or regulatory action, with or without merit, could be costly and time-consuming to defend. If successful, product liability claims may require us to pay substantial damages. During the Track Record Period and up to the Latest Practicable Date, we were involved in a total of 24 cases of court litigation in the PRC in which we were being sued for damages suffered as a result of alleged unsatisfactory orthopaedic operations involving different products of our Group or other losses related to the use of our products. In each of these cases, we were named a co-defendant or third party, together with the hospital at which the operation was performed and/or the distributor which sold the product in question. The following table sets forth the current status of these cases as at the Latest Practicable Date:

Number of cases	Status
1	Withdrawn by claimant
6	Adjudicated or settled, and in which we were not held liable or required to contribute to the compensation (if any) paid to the claimants
1	Adjudicated and the claimant was awarded an aggregate of RMB200,000 to be payable jointly and severally by the co-defendant and us. The claimant has filed an application for retrial with the Supreme People's Court of the PRC and we are waiting for the decision of the Supreme People's Court as to whether it will accept the retrial application
16	On-going

For further details of these cases, please refer to the section headed "Business — Legal compliance and proceedings — Legal proceedings". We self-insure our product liability as we maintain limited product liability insurance to cover potential product liability arising from the sale of our products in China. Further, such insurance does not cover product liability claims for products sold overseas. Our current product liability insurance policies cover up to RMB50,000 per claim and RMB2 million per policy year for Trauson Jiangsu products and up to RMB5,000 per policy year for Orthmed Changzhou products. Save for the product liability insurance policy aforementioned, we have no specific measures in place to mitigate any potential liabilities we may face from third parties. During the Track Record Period, we did not identify any additional services of product liability insurance coverage in China. In any event, we believe product liability insurance available in China offers limited coverage compared to coverages offered in many other countries. As a result, future liability claims could be excluded from or exceed the coverage limits of our policies. As we expand our sales overseas and increase our exposure to these risks in other countries, we may not be able

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to purchase or maintain sufficient product liability insurance coverage on commercially reasonable terms, or at all. Further, product liability claims outside China may involve amounts substantially higher than the level commonly prevailing in China. Therefore, any such claim could have a material adverse effect to our business, results of operations and financial conditions. We have not taken any measure to limit our liability from product liability claims from our overseas end-customers and during the Track Record Period we did not identify or purchase any product liability insurance for our products sold overseas. Consequently we are subject to the risk of product liability claims in relation to our products sold overseas. Although we are investigating the purchase of additional product liability insurance to cover claims that may arise in respect of overseas sales, there is no assurance that we will be able to identify or purchase additional product liability insurance at costs acceptable to us.

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

Failure to manage our growth could strain our managerial, operational and other resources, which could materially and adversely affect our business and prospects.

Our growth strategy includes increasing market penetration of our existing products, expanding our distribution network, increasing our OEM capabilities and consolidating our market position by acquisitions or strategic alliances. Pursuing these strategies could place considerable strain on our managerial, operational and financial resources. In particular, the management of our growth will require, among other things:

- continued enhancement of our research and development capabilities;
- strengthening of financial and management controls;
- enhancement of information technology systems;
- increased marketing, sales and sales support activities;
- identifying suitable acquisition targets and potential business partners; and
- hiring and training of new personnel.

If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

We may be subject to intellectual property infringement claims and successful claims of infringement could materially and adversely harm our business and reputation.

We operate in an industry in which we and our competitors may utilise similar technology and product design. Consequently, both we and our competitors may claim intellectual property rights over the technology and product design used in our products. For example, one of our competitors holds a number of patents that purport to establish intellectual property rights over technology similar to that used in a number of our trauma products. While we do not believe our products

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

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

We purchase raw materials from suppliers and manufacture our products at our production facilities. Our purchases are generally made on a purchase order basis and as a result, our suppliers may cease to provide raw materials to us with little or no advance notice. To optimise our cost structure, we tend to purchase our raw materials from a small number of suppliers. If the supply of certain materials is interrupted, our manufacturing processes would be delayed. We may also be unable to secure alternative supply sources in a timely and cost effective manner. In addition, the prices of the principal raw materials, for example, stainless steel, titanium and titanium alloy, are subject to fluctuations. Further, two of our five largest suppliers during the Track Record Period were owned by Mr Qian Song and Mr Qian Xiao Jin, respectively, both of whom are sons of Mr Xu and our chairman. Our Group has ceased to purchase raw materials from these two companies and has to find replacement suppliers to source raw materials. If we are unable to obtain adequate supplies of required materials that meet our production standards at acceptable costs or at all, our ability to accept and fulfil product orders with the required quality and at the required time could be restricted. This could harm our reputation, reduce our revenue or gross margins, and cause us to lose market share, each of which could materially and adversely affect our business, financial condition and results of operations.

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

We regard our brand name as critical to our success. Unauthorised use of our brand name by third parties may adversely affect the value of our brand name, our business and reputation, including the perceived quality and reliability of our products. We rely on trademark law and agreements with our distributors to protect the value of our brand names. As at the Latest Practicable Date, we had registered 66 trademarks. Despite our precautions, we may be unable to prevent unauthorised use of our brand names by third parties. In certain circumstances, litigation may be necessary to protect our brand names. However, because the validity, enforceability and scope of protection of trademarks in China are uncertain and still evolving, we may not be successful in prosecuting these cases. Further, litigation could also result in substantial costs and diversion of our resources, and could disrupt our business.

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

The sale and marketing of our products are subject to regulation in China and in certain other countries into which we sell our products. For our sales in China, we need to obtain and renew licences and registrations with the PRC state and local food and drugs administration. For us to sell our products in the United States and in the European Economic Area, we also need 510(k) clearances from the USFDA and the CE marks, respectively. The processes for obtaining regulatory clearances or approvals can be lengthy and expensive, and the results are unpredictable. In addition, the relevant regulatory authorities may introduce additional requirements or procedures that have the effect of delaying or prolonging the regulatory clearance or approval for our existing or new products. If we are unable to obtain clearances or approvals needed to market existing or new products, or obtain such clearances or approvals in a timely fashion, our business would be significantly disrupted, and our sales and profitability could be materially and adversely affected. Please see the section headed “Regulatory Framework” in this prospectus for a summary of the major regulations which our business is subject to.

If we fail to successfully identify, acquire or complete acquisitions, or identify or form cooperative alliances, or otherwise successfully execute our expansion plans, our growth and prospects may be adversely affected.

One of our business strategies is to acquire or form cooperative alliances with orthopaedic manufacturers that complement our business, product lines, customer base and geographic coverage. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions as well as our ability to obtain necessary financing and any required governmental or third party consents, approvals and permits in a timely manner. Even if we complete acquisitions, we have limited experience with managing acquisitions, and we may experience:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business;
- challenges in procuring and allocating resources to fund our expansion;
- failure to achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses, of an acquisition or expansion plan;
- difficulties in implementing management and internal control mechanisms that timely and adequately respond to our expanded scope of operations;
- the diversion of resources and management attention from our existing business;
- the costs of and difficulties in integrating acquired businesses and managing a larger business; and
- difficulties in retaining key employees of the acquired business who are necessary to manage the acquired business.

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

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Our revenue and profitability could be materially and adversely affected if there is a disruption to our existing arrangements with our OEM customer.

During the Track Record Period, we only had one OEM customer. Sales to the OEM customer accounted for 8.8%, 16.1% and 14.9% of our total revenue for the years ended 31 December 2007, 2008 and 2009, respectively. As part of our growth strategy, we plan to replicate our success with our OEM manufacturing model and widen our OEM customer base. We have invested significant time and resources in cultivating and developing our relationships with our existing and potential OEM customers. In particular, we are typically required to undergo lengthy product approval processes with these customers. Delays in the product approval process could materially and adversely affect our business, financial condition and results of operations. We may be unable to maintain or develop satisfactory arrangements with existing or potential OEM customers. In particular, any failure in meeting the product specifications from OEM customers could have a material adverse effect on our revenue and profitability.

If we do not have sufficient number of doctors adopt our products or hospitals approve us as their suppliers, our results of operations could suffer.

Our results of operations depend, to a large extent, on whether the products we offer are well received by the market. The primary factors which may affect the acceptance of our products by the market include the number of doctors endorsing, and the number of hospitals approving, the use of our products. If any significant portion of our new products or existing products fails or ceases to be accepted by the market, our business, operational results and financial condition may be materially adversely affected.

Our prospects are dependent upon the successful commercialisation of new products. If we are unable to successfully develop new products or expand our product line, our business and financial condition may be adversely affected.

Our prospects are dependent upon the design and successful commercialisation of new orthopaedic products, including spine and joint reconstructive products. As one of our product development strategies, we have formed strategic alliances with research institutions and universities in order to strengthen our research and development capability. However, the research and development process is costly and time-consuming and there is no assurance that our research projects can be completed within the anticipated timeframe or will lead to any breakthrough, and that the findings of such research projects will lead to commercial production of any products. In addition, in May 2010 we entered into a distribution arrangement to distribute third-party produced spine products and surgical instruments in the PRC. As part of that distribution arrangement, we have agreed not to produce or sell any products that compete with those of the third-party producer other than those included in our existing product lines. This agreement, and other similar arrangements we may enter into in the future, could have the effect of limiting our ability to develop and commercialise new products. If we are unable to successfully develop new products or expand our product line, our business and financial condition may be adversely affected.

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

Our future operations and financial performance depend upon the continued service of our key executives and other key employees whose biographical details are set out in the section headed “Directors, Senior Management and Employees — Directors” and “— Senior management” in this

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prospectus. In particular, we are highly dependent on our chairman, who is also our current chief executive officer and an executive Director, to manage our business and operations. Within the recent past, we have attempted to hire and retain additional key executives but have been unable to do so. For example, in 2009, we hired an individual to be our chief executive officer but he voluntarily resigned from the position during 2010 due to personal and family reasons. Such changes to the management team may have a disruptive effect on our business. Our chairman currently acts as chief executive officer and an executive Director and we may not be able to locate suitable or qualified replacements for our former chief executive officer or any members of senior management we may fail to retain in the future, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and growth. Furthermore, as we expect to continue to expand our operations, we will need to continue attracting and retaining experienced management.

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

If any major logistic company that we use fails to meet its commitments and deliver our products to distributors or fails to settle its trade payables due to us in full, our business and results of operations may be adversely affected.

In some cases, we sell our products to a logistic company (which is also a licensed distributor) who then on-sell our products to other authorised distributors. For further details, please see the section headed “Business — Sales and distribution — Logistic companies” of this prospectus.

The use of logistic companies increases the concentration of our credit risk of trade receivables due from such logistic companies. If any of the logistic companies that we appoint fails to meet its commitments and does not deliver our products required by our distributors on time or at all, or it fails to settle its trade payables due to us in full, our business and results of operations may be adversely affected.

Some of our future revenue may be derived from countries that are subject to US OFAC sanctions. This may limit our ability to pursue business opportunities in the United States or obtain financing from the United States.

As a non-US corporation, we are generally not subject to sanctions administered by the United States Department of the Treasury’s Office of Foreign Assets Control, or OFAC, which prohibit persons subject to OFAC restrictions from conducting business activities in certain countries or with certain individuals that are subjects of OFAC sanction programmes. However, US persons are generally prohibited from facilitating such business activities. During the Track Record Period, an immaterial amount of our revenue was generated from sales to countries that were subjects of OFAC sanction

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programmes. Although we have no intention to actively develop any of these markets, we may continue to have some business activities in countries that are subjects of OFAC sanction programmes in the future and we cannot assure you that our products will not be on-sold to sanctioned countries.

The engagement of business activities in or the resale of our products to sanctioned countries could limit our ability to pursue business opportunities in the United States or obtain financing from the United States as potential business partners and investors may be subject to the OFAC sanction programmes. The occurrence of any of the foregoing events could affect our sales to overseas markets, results of operations and financing position. Also, some US investors may forgo the purchase of our Shares, which could affect the value of our Shares and your investment in us.

If we fail to protect our intellectual property rights, it could harm our business and competitive position.

We rely on a combination of patent, trademark and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights. As at the Latest Practicable Date, we had registered 33 patents (including utility models and layout designs) in China covering various products and aspects of our products and have an additional 24 patent applications pending in China. We have not applied for any patents outside of China and we may be unable to obtain adequate protection for certain aspects of our products or technologies outside China.

The process of seeking patent protection can be lengthy and expensive, our patent applications may fail to result in the patents being issued, and our existing and future patents may be insufficient to provide us with meaningful protection or commercial advantage. Our patents and patent applications may also be challenged, invalidated or circumvented.

We also rely on trade secret rights to protect our business through non-disclosure provisions in employment agreements with employees. If our employees breach their non-disclosure obligations, we may not have adequate remedies in China, and our trade secrets may become known to our competitors.

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

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

Our production facilities, distribution network, and sources of raw materials face the risk of interruptions resulting from external factors beyond our control, such as natural disasters (including but not limited to flooding, cyclones, typhoons, earthquakes, blizzard and snow storm), acts of

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terror or other third party interference. We cannot assure you that all claims under our insurance policies will be honoured fully or on time. We do not carry any business interruption insurance or third party liability insurance for personal injury or environmental damage arising from accidents at our facilities. In addition, there are certain types of losses, such as those resulting from war, acts of terrorism, earthquakes, typhoons, flooding or other natural disasters for which we cannot obtain insurance at a reasonable cost or at all. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss or a loss in excess of insured limits occur, we could suffer from financial losses, as well as damage to our reputation or lose all or a portion of future revenues anticipated to be derived from the relevant facilities. Any material loss not covered by our insurance could materially and adversely affect our business, 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 operating process, including but not limited to faulty construction and operator error. Any interruption in, or prolonged suspension of any part of production at, or any damage to or destruction of, any of our production facilities arising from unexpected or catastrophic events or otherwise may prevent us from supplying products to our customers, which in turn may result in a material adverse impact on our results of operations and financial condition. Additionally, the amount of inventory we maintain is limited and there can be no assurances 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. In particular, if we were to incur a significant liability for which we have not maintained sufficient insurance coverage, we might not be able to finance the amount of the uninsured liability, and might be obligated to divert a significant portion of cash flow from normal business operations. Consequently, our business, prospects, financial condition and results of operations may be materially and adversely affected.

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

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

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

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RISKS RELATING TO OUR INDUSTRY

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

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

All medical device manufacturers and distributors in China are required to obtain certain permits and licences from various PRC governmental authorities, including production permits and product registration certificates for manufacturers. We have obtained all necessary permits and licences required for the manufacture and distribution of our orthopaedic products. However, these permits and licences are generally only valid for a maximum period of four to five years and subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of such renewal or reassessment may change from time to time. Although we intend to apply for the renewal of these permits, licences and certifications when required by applicable laws and regulations, there can be no assurance that we will successfully procure such renewals. Any failure by us to obtain the necessary renewals and otherwise maintain all licences, permits and certifications necessary to carry on our business at any time could severely disrupt our business, and prevent us from continuing to carry on our business, which could have a material adverse effect on our business, financial condition and results of operations. In addition, any inability to renew these permits, licences and certifications could severely disrupt our business, and prevent us from continuing to carry on our business. Any changes in the standards used by governmental authorities in considering whether to renew or reassess our business licences, permits and certifications, as well as any enactment of new regulations that may restrict the conduct of our business, may also decrease our revenues and/or increase our costs, and materially reduce our profitability and prospects. Further, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect requiring us to obtain any additional permits, licences or certificates that were previously not required to operate our existing businesses, we cannot assure you that we may successfully obtain such permits, licences or certificates.

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

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

There is currently no price control imposed by the PRC government in relation to medical devices sold in the PRC and none of our products are subject to price control in the PRC. Whereas, the prices of certain pharmaceutical products sold in China, primarily those included in the national and provincial medical insurance catalogue are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and operators cannot set the actual price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government.

In the recent years, the PRC government has been making continuous and increasing efforts in stepping up the healthcare system reform. In 2008 and 2009, the PRC government announced a series of healthcare reform plans, the goal of which is to establish a universal healthcare framework and to ensure that basic healthcare services are accessible to Chinese nationals. For further details, please see the section headed “Industry Overview — Overview of the PRC healthcare market — Latest healthcare reform plan in the PRC.” As part of this trend, the Ministry of Health has increased its involvement in the administration of the bid process used by hospitals and clinics for selecting their suppliers for medical devices and their procurement price. We are unable to predict any future changes to the price control policy to be adopted by the PRC government in the healthcare sector. In the event of any changes in such policy resulting in all or some of our products being subject to price control, our business, profitability, results of operations and prospects would be materially and adversely affected.

We are subject to risks in relation to actions taken by us, our employees, our distributors or our affiliates that constitute violations of anti-corruption measures taken by the PRC government to prevent fraud and abuse in the healthcare industry. Our failure to comply with these measures, or effectively manage our employees, distributors and affiliates, could adversely affect our reputation, results of operations and business prospects.

Our operations are subject to PRC laws and regulations relating to healthcare fraud and corruption that expose us to risks in relation to actions taken by us and our employees, distributors and affiliates. Our failure to comply with these measures, or effectively manage our employees, distributors and affiliates, could have a material adverse effect on our reputation, results of operations and business prospects.

In the healthcare industry, corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by hospitals and medical practitioners from pharmaceutical and medical device manufacturers and distributors in connection with the prescription or use of certain healthcare products. If we, our employees or affiliates violate these laws, rules or regulations, we could be required to pay damages or fines, the products involved may be seized and our operations may be suspended, any of which could materially and adversely affect our business, financial condition and results of operations. Our reputation and our sales could be adversely affected if we become the target of any negative publicity as a result of actions taken by us, our employees, distributors or affiliates.

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

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

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

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

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

- structure;
- level of governmental involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

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

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

All of our operations are conducted in the PRC and most of our employees are PRC citizens. Our operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since the late 1970s, many new laws and regulations covering general economic matters have been promulgated in China. Despite these new interventions to develop the legal system, China's system of laws is not yet complete. Even where adequate law exists in China, the

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enforcement of laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgement by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

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

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

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

According to the latest version of the Foreign Investment Catalogue (《外商投資產業指導目錄》), which became effective on 1 December 2007, our business does not fall within the prohibited or the restricted category. As the Foreign Investment Catalogue is updated every few years, there can be no assurance that the PRC government will not change its policies in a manner that would render part or all of our businesses to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant approval authorities to engage in businesses which become prohibited or restricted for foreign investors, we may be forced to sell or restructure our businesses which have become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be materially adversely affected.

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

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

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

RISK FACTORS

Under the EIT Law, which became effective on 1 January 2008, dividends paid by our PRC subsidiaries may be subject to PRC tax. In addition, we may be considered as a PRC resident enterprise for tax purposes, in which case our global income may be subject to the 25% EIT, and dividends we pay to our overseas shareholders and gains realised from the transfer of Shares by our overseas shareholders may also be subject to PRC withholding tax.

We are a holding company incorporated in the Cayman Islands and our business operations are principally conducted through our PRC subsidiaries. Under the EIT Law, which became effective on 1 January 2008, dividends payable by a foreign-invested enterprise to its foreign investors are subject to a 10% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Pursuant to an applicable tax arrangement between the PRC and Hong Kong, a company incorporated in Hong Kong is subject to a reduced withholding tax rate of 5% on dividends it receives from a company incorporated in the PRC if it holds 25% or more interest in such PRC company. Accordingly, dividends paid by Trauson Jiangsu to Trauson Hong Kong, and by Orthmed Changzhou to Orthmed Hong Kong, are subject to a 5% PRC withholding tax, unless Trauson Hong Kong or Orthmed Hong Kong is deemed to be a PRC resident enterprise for the purposes of EIT Law. Further, according to a circular released by the State Administration of Taxation on 27 October 2009 (Guoshuihan [2009] No. 601 ("Circular 601")), a corporate resident of a contracting state will not be entitled to the lower withholding tax rate under the tax treaty if it is considered a "conduit company" set up merely for the purpose of avoiding or reducing tax or transferring or accumulating profits, as opposed to a beneficial owner who owns and controls an item of income, or the right or property from which that item of income is derived, and is normally engaged in substantive business activities such as manufacturing, sales and management. Therefore, if any of Trauson Hong Kong and Orthmed Hong Kong is not considered to be the beneficial owner of Trauson Jiangsu and Orthmed Changzhou, respectively under the terms of Circular 601, we may not be able to enjoy the applicable tax arrangement benefits between the PRC and Hong Kong and any dividends paid by Trauson Jiangsu to Trauson Hong Kong, and by Orthmed Changzhou to Orthmed Hong Kong may attract a higher withholding tax rate of 10%. There is no similar tax treaty between the Cayman Islands or the BVI on one hand and China on the other.

Under the EIT Law, enterprises established under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises for tax purposes. The State Administration of Taxation of the PRC promulgated the "Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in accordance with Criteria for Determining Place of Effective Management" in April 2009 which defines the term "management body" in respect of enterprises that are established offshore by PRC enterprises. However, no definition of "management body" is provided for enterprises established offshore by private individuals or foreign enterprises like us. As such, our PRC legal adviser has advised us that there is uncertainty whether our Company will be deemed to be a PRC resident enterprise for the purpose of the EIT Law. If our Company is considered a PRC resident enterprise under the above definition, our global income will be subject to EIT at the rate of 25%. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from EIT, due to the short history of the EIT Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividend payments by our subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

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Furthermore, the implementation rules of the EIT Law set forth that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realised from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our overseas shareholders as well as gains realised by such shareholders from the transfer of our Shares may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

Since the EIT Law took effect in 2008, it remains uncertain in many aspects as to how it would be implemented by the relevant PRC tax authorities. If dividend payments from our PRC subsidiaries to us are subject to PRC withholding tax at the rate of 10%, our financial condition, results of operations and the amount of dividends available to pay our shareholders may be adversely affected. If our dividend payments to our overseas shareholders and gains realised by such shareholders from the transfer of our Shares are subject to PRC withholding tax, it may materially and adversely affect your investment return and the value of your investment in us.

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

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

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

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

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

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

Renminbi is not a freely convertible currency. In China, the conversion of Renminbi into foreign currencies, including HK dollars and US dollars, is based on rates set by the People's Bank of China. The official exchange rate for the conversion of the RMB to US dollars had generally been stable from 1994 until July 2005, when the PRC government introduced a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, being the effective date of the new regime, Renminbi appreciated against the US dollar and HK dollar by approximately 2%. On 23 September 2005, the PRC government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. It is uncertain if the exchange rates of Hong Kong dollars and US dollars against RMB will further fluctuate. Any appreciation of the RMB may subject us to increased competition from imported orthopaedic products. Also, since our revenues and profit are denominated in RMB, any depreciation of RMB would materially and adversely affect the value of, and any dividends payable on, our Shares in foreign currency terms.

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

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Global Coordinator (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our Shares may be volatile.

The following factors could cause the market price of our Shares following the Global Offering to vary significantly from the Offer Price:

- variation in our turnover, earnings and cash flow;
- liability claims brought against us based on, for example, defective products or safety-related regulatory actions;

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- interruptions to our distribution arrangements;
- our failure to execute our strategy;
- any unexpected business interruptions resulting from operational breakdowns or natural disasters;
- inadequate protection of our intellectual property or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- any major changes in our key personnel or senior management;
- our ability to obtain or maintain regulatory approval for our products; and
- political, economic, financial and social developments.

You will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible asset value to HK\$1.92 per Share, based on the mid-point of the indicative offer price range of HK\$2.98, assuming the Over-allotment Option is not exercised. There is no assurance that if we were to immediately liquidate after the Global Offering, any assets will be distributed to shareholders after the creditors' claims. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

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

Our ultimate controlling shareholder has substantial influence over our business, including matters relating to our management and policies and decisions regarding mergers, expansion plans, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Our ultimate controlling shareholder, Ms Xu, is a non-executive Director and the spouse of Mr Qian Fu Qing, our chairman and chief executive officer. Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised, Ms Xu will, through Luna Group, hold 481,231,375 shares representing approximately 64.2% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other shareholders. In addition, the interests of our controlling shareholders may differ from the interests of our other shareholders. It is possible that our ultimate controlling shareholder may exercise her substantial influence over us and cause us to enter into transactions or take, or fail to take, other actions or make decisions which conflict with the best interests of our other shareholders.

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Sale or perceived sale of substantial amounts of our Shares in the public market after the Global Offering could materially adversely affect the prevailing market price of our Shares.

The Shares beneficially owned by our controlling shareholder and Honest Fame are subject to certain lock-up periods. There is no assurance that our controlling shareholders or Honest Fame will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. Sale of substantial amounts of our Shares in the public market, or the perception that such sale may occur, could materially and adversely affect the prevailing market price of our Shares. Such sale or the perception of such sale is likely to make it more difficult for us to sell equity or equity-linked securities in the future at a time and price which we deem appropriate.

You may face difficulties in protecting your interests because we are incorporated under the Cayman Islands law, and these laws relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority shareholders may be limited compared to the laws of other jurisdictions.

Our corporate affairs are governed by, among other things, the Articles of Association, the Cayman Companies Law and common law of the Cayman Islands. The rights of shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us are to a large extent governed by the common law of the Cayman Islands and our Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be limited compared to the laws of other jurisdictions. Please refer to the “Summary of the Constitution of the Company and Cayman Companies Law” in Appendix V to this prospectus.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to certain information obtained from official governmental and other sources contained in this prospectus.

Facts, statistical and forecast information relating to China, the Chinese economy and the healthcare and orthopaedic markets contained in this prospectus has been compiled from various publicly available official governmental sources and a report prepared by China Orthopaedics. Statistics derived from such sources may not be prepared on a comparable basis. None of the Sponsor, the Underwriters, any of their affiliates or advisers, we or any of our affiliates or advisers, have verified the accuracy of the information derived from official sources. Therefore, we make no representation as to the accuracy of such information and the investors should not place undue reliance on such information as a basis for making the investment for the Shares.

Prospective investors should not place any reliance on any information contained in the press coverage regarding our Group and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, including but not limited to the statements appeared in Hong Kong Economic Times and The Sun on 8 June 2010 which included, among others, certain financial information, projections, valuations and/or other information about our Group and the Global Offering.

RISK FACTORS

We have not authorised the disclosure of any such information in the press or media and we do not accept any responsibility for the accuracy or completeness of any such press articles or media. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us, or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the press or other media. To the extent that any such information appearing in the press or other media other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making the decision as to whether to invest in the Offer Shares, investors should rely only on the information contained in this prospectus and should not rely on any other information.

FORWARD-LOOKING STATEMENTS

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 risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our operations and business prospects;
- future developments, trends and conditions in the healthcare and orthopaedic industries and in China and other overseas markets which we intend to develop;
- our strategies, plans, objectives and goals;
- the industry regulatory environment as well as the industry outlook in general;
- general economic conditions of China;
- our dividend policy;
- our future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- volumes, operations, margins, overall market trends, risk management and exchange rates.

The words “anticipate,” “believe,” “could,” “expect,” “going forward,” “intend,” “may,” “plan,” “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 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The 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 herein or 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 Sponsor, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in 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," and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

SELLING RESTRICTIONS

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

No action has been taken to permit a public offering of the 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares to be issued pursuant to the exercise of the Over-Allotment Option.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offer and the International Offering will be registered on our register of members to be maintained in Hong Kong. Dealings in Shares registered in our register of members in Hong Kong will be subject to Hong Kong stamp duty. The principal register of members will also be maintained by Maples Finance Limited in the Cayman Islands.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sponsor, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other party 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, or the exercise of any rights in relation to, our Shares.

CURRENCY TRANSLATIONS

Unless otherwise specified, this prospectus contains certain translations of HK dollars into Renminbi and US dollars into HK dollars for the convenience of the reader at the following rates:

- HK\$1.00 to RMB0.8750. This is the rate quoted by the People's Bank of China on the Latest Practicable Date.
- US\$1.00 to HK\$7.80

These translations 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 HK\$, RMB or US\$ can be or could have been at the relevant date converted at the above rate or any other rate 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 for reference only.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
Mr Qian Fu Qing (錢福卿 先生)	33 Jurong West 41 #11-46 Lakeshore Singapore 649413	Saint Christopher (St Kitts) and Nevis
Ms Ren Feng Mei (任鳳妹 女士)	Room 602, Building 19 II Jia Shun Garden New District Changzhou Jiangsu Province PRC	Chinese
Mr Cai Yong (蔡勇 先生)	Room 301, Building 271 II Hua Dong Er Cun Hu Tang Town Wujin District Changzhou Jiangsu Province PRC	Chinese
Non-executive Director		
Ms Xu Yan Hua (徐燕華 女士)	33 Jurong West 41 #11-46 Lakeshore Singapore 649413	Saint Christopher (St Kitts) and Nevis
Independent non-executive Directors		
Mr Chan Yuk Tong (陳育棠 先生)	Flat A, Floor 1 Tower 2 King's Park Villa Homantin, Kowloon Hong Kong	British
Dr Lu Bing Heng (盧秉恒 博士)	28 Xian Ning Lu Xi'an PRC	Chinese
Mr Zhao Zi Lin (趙自林 先生)	No 601, Gate 2 Building 1, Court 9 Che Gong Zhuang Avenue Xicheng District Beijing PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Global Coordinator, Bookrunner and Sponsor UBS AG, Hong Kong Branch
52nd Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Joint Lead Managers UBS AG, Hong Kong Branch
52nd Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

CCB International Capital Limited
34th Floor Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Hong Kong Underwriters UBS AG, Hong Kong Branch
52nd Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

CCB International Capital Limited
34th Floor Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Auditors and reporting accountants Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor One Pacific Place
88 Queensway
Hong Kong

Legal advisers to the Company *as to Hong Kong and United States laws:*
Latham & Watkins
41st Floor One Exchange Square
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to PRC law:

King and Wood
28th to 30th Floor
1045 Huai Hai Zhong Road
Shanghai 200031
PRC

as to Cayman Islands law:

Maples and Calder
53rd Floor The Center
99 Queen's Road Central
Hong Kong

Legal advisers to the Underwriters

as to Hong Kong law:

Jackson Woo & Associates in association with
Ashurst Hong Kong
16th Floor ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

as to United States law:

Ashurst Hong Kong
16th Floor ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

as to PRC law:

Commerce & Finance
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A12 Jianguomenwai Avenue
Beijing 100022
PRC

Property valuer

Jones Lang LaSalle Sallmanns Limited
17th Floor Dorset House
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979 King's Road
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Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered office	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Headquarters	31 Houlu Village Niutang Town Changzhou City Jiangsu Province PRC
Principal place of business in Hong Kong	8th Floor Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company's website	www.trauson.com
Company secretary	Mr Ngai Wai Fung (魏偉峰 先生) <i>FCIS, FCS(PE), CPA, ACCA</i>
Authorised representatives	Mr Qian Fu Qing 33 Jurong West 41 #11-46 Lakeshore Singapore 649413 Mr Ngai Wai Fung c/o KCS Hong Kong Limited 8th Floor Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Audit committee members	Mr Chan Yuk Tong (<i>Chairman</i>) Mr Zhao Zi Lin Ms Xu Yan Hua
Remuneration committee members	Mr Zhao Zi Lin (<i>Chairman</i>) Dr Lu Bing Heng Mr Qian Fu Qing
Nomination committee members	Dr Lu Bing Heng (<i>Chairman</i>) Mr Chan Yuk Tong Mr Qian Fu Qing
Compliance adviser	Mizuho Securities Asia Limited 12/F Chater House 8 Connaught Road Central Hong Kong

CORPORATE INFORMATION

Principal share registrar and transfer office

Maples Finance Limited
PO Box 1093
Queensgate House
Grand Cayman
KY1-1102
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal bankers

Industrial and Commercial Bank of China Limited
Niu Tang Branch
219 Hubin Road
Niutang Town, Wujin District
Changzhou
PRC

Agricultural Bank of China Limited
South Xiaxu Branch
106 Nantong Road
Changzhou
PRC

Bank of Communications Limited
New District Branch
10 Hangshan Road
Xinbei District
Changzhou
PRC

REGULATORY FRAMEWORK

REGULATORY FRAMEWORK

Our orthopaedic implants and surgical instruments are subject to PRC regulatory controls governing medical devices. As a manufacturer of medical devices we are subject to regulation and oversight by the SFDA as well as by other levels of the food and drug administration in China. In China, the SFDA is the central authority which monitors and supervises the administration of healthcare products including medical devices. It undertakes the evaluation, registration and approval of new drugs, generic drugs, imported drugs and Chinese medicines. The SFDA is also in charge of the grant of permits for the manufacture, distribution and import of healthcare products including medical devices and for the establishment of enterprises engaged in the manufacture or distribution of healthcare products including medical devices. SFDA requirements include obtaining product registrations, production permits, compliance with clinical testing standards, manufacturing practices, quality standards, applicable industry standards and adverse event reporting, and advertising and packaging standards.

We are also subject to other PRC government laws and regulations which are applicable to manufacturers in general.

PRODUCTION AND DISTRIBUTION OF MEDICAL DEVICES IN THE PRC

Classification of medical devices

In China, medical devices are classified according to a catalogue issued by the SFDA into three different categories, Class I, Class II and Class III, depending on the degree of risk associated with each device and the extent of control needed to ensure safety and effectiveness. While medical devices in all categories require product registration, classification of a device determines the types of registration required and the level of regulatory authority involved in effecting the product registration. Classification of a medical device also determines whether a manufacturer needs to obtain a production permit and the level of regulatory authority involved in obtaining such permit.

The Regulations on the Supervision of Medical Devices (《醫療器械監督管理條例》), or the Supervision of Medical Devices, promulgated by the State Council effective 1 April 2000 defines the three classes of medical devices as follows:

- Class I medical devices are those for which safety and effectiveness can be ensured through routine administration. Class I devices require product registration and are regulated by the municipal level food and drug administration where the manufacturer is located.
- Class II medical devices are those for which further control is required to ensure their safety and effectiveness. Class II devices require product registration, usually through a quality system assessment, and are regulated by the provincial level food and drug administration where the manufacturer is located.
- Class III medical devices are those which are implanted into the human body, or used for life support or sustenance, or pose potential risk to the human body and thus must be strictly controlled in respect of safety and effectiveness. Class III devices also require product registration and are regulated by the SFDA under the strictest regulatory control.

REGULATORY FRAMEWORK

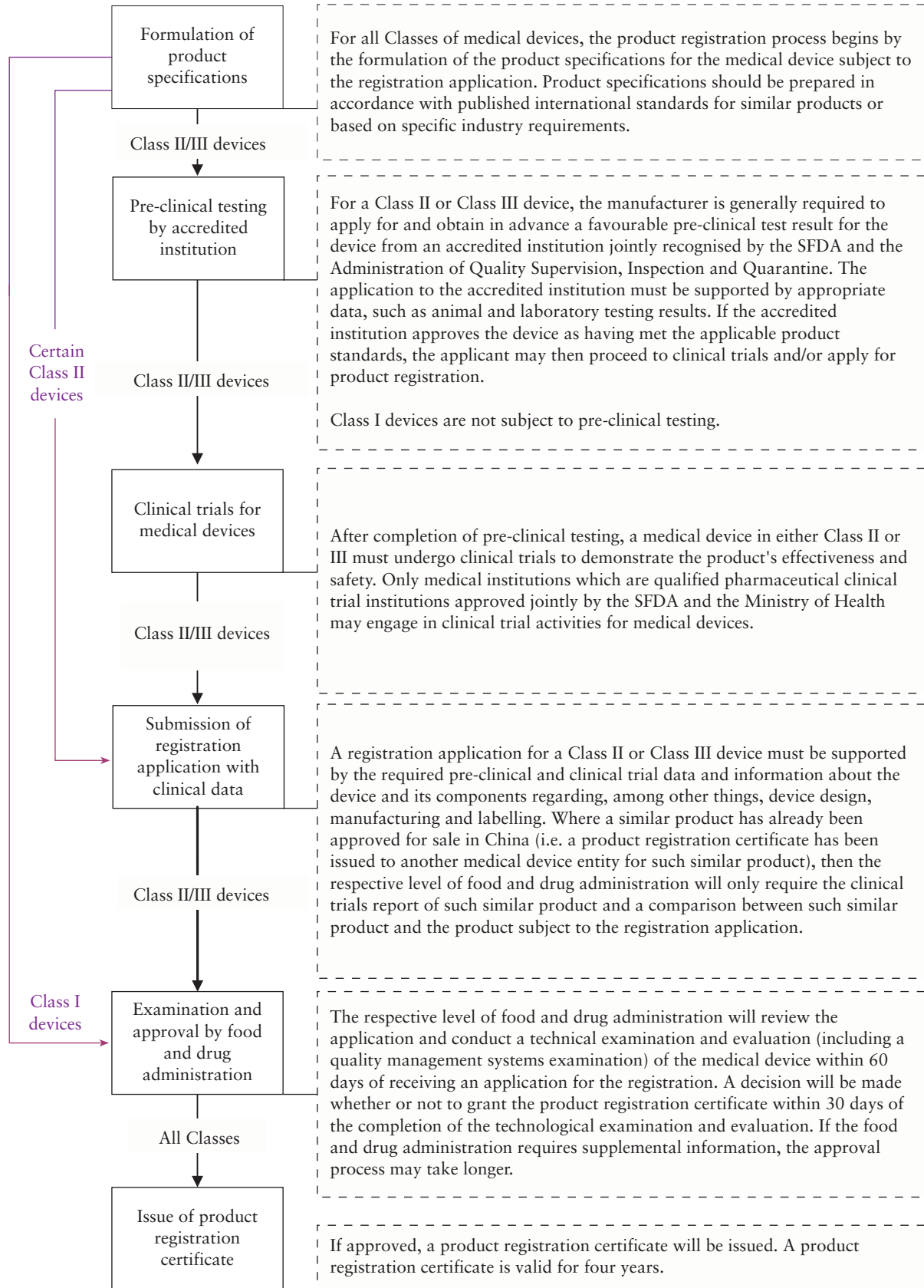
As at 31 December 2009, we had in total 87 product registration certificates for trauma products, spine products and surgical instruments. Amongst our product registrations, 29 product registrations (comprised of all of our implanted products) are classified as Class III devices; two product registrations in relation to external fixation devices that we produce are classified as Class II devices; and the remaining 56 product registrations which are related to our surgical instruments are classified as Class I devices.

Product registration for medical devices

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

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



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The SFDA may change its policies, adopt additional regulations, revise existing regulations or tighten enforcement, each of which could block or delay the approval process for a medical device.

Production permit

Pursuant to the Regulations on the Supervision of Medical Devices, a manufacturer must obtain a production permit (《醫療器械生產企業許可證》) from the respective level of food and drug administration before commencing the manufacture of Class II and Class III medical devices. In general, the State Administration for Industry and Commerce (中國國家工商行政管理總局) and/or its local branches will not issue a business licence to a manufacturer of Class II and Class III medical devices before it has obtained a production permit. Accordingly, a manufacturer will not be able to commence any business operations without a production permit. No production permit is required for the manufacture of Class I devices, but the manufacturer must notify the provincial level food and drug administration where the manufacturer is located and file for record with it.

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

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

Distribution licence

A distributor must go through examination and approval procedures and obtain a distribution licence (《醫療器械經營企業許可證》) in order to engage in the sale and distribution of Class II and Class III medical devices in China. Similar to the approval process for the production permit, a Class I medical device trading distributor only needs to notify the provincial level food and drug administration and file for record with it. A distribution licence is valid for five years and is renewable upon expiration.

Trauson Jiangsu and Orthmed Changzhou, our two principal operating subsidiaries, only sell products they manufactured. As advised by our PRC legal adviser, King and Wood, PRC laws do not expressly require manufacturers of medical devices to obtain distribution licences in addition to production permits for the sale and distribution of their own products. In this regard, we have consulted with SFDA and the relevant provincial food and drug administration and were confirmed that neither Trauson Jiangsu nor Orthmed Changzhou is required to obtain a distribution licence for the sale and distribution of the products they manufactured.

China Compulsory Certification requirements

China Compulsory Certification, or CCC, inclusive of a certificate and a mark, serves as evidence that the covered products can be imported, marketed or used in China. The CCC mark is administered by the China National Certification and Accreditation Administration, which designates the China Quality Certification Centre to process CCC mark applications.

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There are seven categories (mostly electrical) of medical devices that are required to have a CCC mark, and they are electrocardiographs; haemodialysis equipment; extracorporeal blood circuits for blood purification equipment; hollow fibre dialysers; implantable cardiac pacemakers; medical x-ray diagnostic equipment; and artificial heart/lung machines. For such medical devices, a CCC mark application must be submitted to the PRC Certification and Accreditation Administration prior to the product registration.

None of our products are required to receive a CCC mark.

Continuing SFDA regulation

We are subject to continuing regulation by the SFDA.

Renewal of permits and certificates

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

The production permits of Trauson Jiangsu and Orthmed Changzhou are valid for a period of five years and will expire on 10 January 2011 and 26 September 2012, respectively. To renew a production permit, a manufacturer needs to submit to the provincial level food and drug administration an application to renew the permit, along with the required information within six months and at least 45 working days before the expiration date of the permit. Our PRC legal adviser, King and Wood, has advised that there is no legal impediment for Trauson Jiangsu and Orthmed Changzhou to renew their production permits upon expiry provided that timely applications are made pursuant to the relevant PRC laws and regulations. We will also need to renew our product registration certificates for the 29 product models which are classified as Class III devices with the SFDA and for the remaining 58 product models with the relevant provincial or municipal level food and drug administrations within six months prior to the expiration date of such certificates.

Changes to particulars in the permits and certificates

Any changes to the contents or particulars stated in the production permit must be reported to the food and drug administration.

Similarly, if any of the contents stated in the product registration certificate is changed, an application for the modification or re-registration of the product registration certificate must be filed with the SFDA within 30 days after the change occurs. In the event of significant modification to an approved medical device, such as changes to (1) the model and specification of the device; (2) location of the production facility; (3) product standards; (4) function, structure and composition of the device, or (5) application scope of the device, a re-registration may be required. A modification filing will be sufficient with respect to changes of a minor nature, such as changes to the device name.

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Other on-going regulations

In addition, our products are subject to, among others, the following regulations:

- the SFDA's quality system regulations which require medical device manufacturers to create, implement and follow certain design, testing, control, documentation and other quality assurance procedures; and
- the SFDA's quality surveillance system which imposes mandatory adverse event monitoring and reporting obligations on medical device manufacturers, distributors and medical institutions. Such entities are required to set up an adverse event monitoring system, which shall include the maintenance of a logbook recording incidents of adverse reaction and other events involving their products. They must also comply with various reporting obligations to the relevant authorities. For example, manufacturers of Class II and III medical devices are required to file an annual adverse event report to the provincial level adverse event monitoring authorities reporting on any recently occurred adverse event incidents.

Further, Class II and III devices may also be subject to special controls applicable to them, such as supply purchase information, performance standards, quality inspection procedures and product testing devices which may not be required for Class I devices. From time to time, we have filed adverse event reports according to the SFDA's requirements reporting on suspected adverse events relating to our products which have been brought to our attention. Incidents reported during the Track Record Period are primarily in relation to broken products after they were applied to patients. So far, none of the suspected adverse events reported by us have been confirmed as adverse events by the adverse event monitoring authorities and no actions have been taken by the adverse event monitoring authorities in relation to any of our reported suspected adverse events. Accordingly, our Directors do not expect the reported suspected adverse event incidents have any material impact on our business, operation and financial position. We believe we are in compliance with the applicable SFDA guidelines, but we could be required to change our compliance activities or be subject to other special controls if the SFDA changes or modifies its existing regulations or adopts new requirements.

We are also subject to inspection and market surveillance by the SFDA to determine compliance with regulatory requirements. If the SFDA decides to enforce its regulations and rules, it can institute a number 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; and
- criminal prosecution.

Good Manufacturing Practices

The SFDA issued the "Notice Regarding Commencement of the Pilot Scheme for Adopting Good Manufacturing Practices by Enterprises Engaging in the Manufacture of Sterilised and Implanted Medical Devices" (《關於開展無菌和植入性醫療器械生產企業的質量管理體系規範試點工作的通知》) on 12 December 2006 which aims to provide quality assurance and to ensure that medical devices subject to the guidelines are consistently produced and controlled to the quality and standards appropriate for their intended uses. The GMP when introduced in 2006 was on a trial basis, compliance of which was not mandatory and a number of leading domestic medical device manufacturers was selected to participate in the pilot programme. Among them are 13 orthopaedic

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companies, including Trauson Jiangsu and Orthmed Changzhou, which have been certified to be in compliance with the newly established GMP standard in 2007. The PRC government has announced that it was satisfied with the results of the pilot programme and issued the “Implementation Rules and Assessment Standards for Adopting GMP Standards for Manufacturing Medical Implants” (《關於印發醫療器械生產質量管理規範植入性醫療器械實施細則和檢查評定標準(試行)的通知》) on 16 December 2009, pursuant to which Good Manufacturing Practices will become mandatory for all medical device manufacturers when they apply for or renew their product registration certificates, starting from 1 July 2011.

TENDERING REQUIREMENTS FOR HOSPITAL PURCHASES OF MEDICAL DEVICES

According to the “Regulation on Managing the Deployment and Use of Large-scale Medical Devices” (《大型醫用設備配置與使用管理辦法》), jointly promulgated by the Ministry of Health, NDRC and the Ministry of Finance on 31 December 2004, the Ministry of Health is in charge of approving purchases of First Category medical devices, whereas the Department of Health at provincial level will be in charge of approvals for purchases of Second Category medical devices, such as X-ray computed tomography (CT) scan. The Ministry of Health promulgated the “Notice on Further Strengthening the Centralised Purchase of Medical Devices” (《衛生部關於進一步加強醫療器械集中採購管理的通知》) on 21 June 2007, which further requires the government to implement the full-range centralised purchase system for medical devices and medical materials. Except for the centralised purchase of devices which is governed by the Ministry of Health, the management and centralised purchase of other devices or materials is governed by the Department of Health at provincial levels. Detailed category and sum of amount, as well as quota of purchase is also to be adjusted and arranged by the Department of Health at provincial level.

REIMBURSEMENT UNDER THE NATIONAL MEDICAL INSURANCE PROGRAMME

According to the 1998 Decision of Establishing Basic Medical Insurance Scheme for Urban Employees (《關於建立城鎮職工基本醫療保險制度的決定》), China has adopted a medical insurance system for employed urban residents. Typically, patients covered by medical insurance would be required to pay for medical services either (i) in full out of their own pocket at the time services are rendered and seek reimbursement from the relevant insurer or (ii) in part in respect of the non-reimbursable portion and leave the hospital to claim the balance from the relevant insurer. The PRC government currently either fully or partially reimburses medical expenses for certain approved items. The 1999 Opinion on Management of Urban Employees Basic Medical Insurance Items (《關於城鎮職工基本醫療保險診療項目管理的意見》) has clarified the scope and items of the reimbursement. Patients receiving treatments utilising replacement organs such as artificial joints, intraocular lens, vascular stents and other one-off medical items as may be designated by the local provincial pricing department as reimbursable will receive partial reimbursement from their insurer. As discussed in more detail in the section headed “Business — Sales and distribution”, our revenue is derived from the sale of our products to our distributors, who in turn, on-sell our products to our hospital customers. Patients of hospital customers receiving treatments utilising our products would pay for the medical services and our products out of their own pocket and, subsequently, seek reimbursement from their insurers. Alternatively, patients would pay for the non-reimbursable portion of the medical services and leave the hospital to claim the balance from their insurer. We do not receive payment directly from patients or insurers.

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For urban non-workers who are covered by the Urban Residents Basic Medical Insurance Programme and rural residents who are covered by the new Rural Cooperative Medical Programme, the types of treatments that are covered are generally set with reference to the policy for urban employees in the same region of the country. However, the reimbursement levels for covered medical expenses for urban non-workers and rural residents, which vary significantly by region and by treatment, are generally lower than those for urban employees in the same region.

PRODUCT LIABILITY AND PROTECTION OF CONSUMERS

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

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was enacted in 1993 and amended in 2000 to strengthen quality control of products and reinforce consumers' rights. Under this law, manufacturers and operators who produce and sell defective products may be subject to confiscation of earnings from such sales, the revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liability.

Product liability

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

The PRC Law on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on 31 October 1993 and enacted from 1 January 1994 to protect consumers' rights when they purchase goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. In extreme circumstances, 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 IN CHINA

We are subject to evolving regulations under many other laws and regulations administered by governmental authorities at the national, provincial and city levels, some of which are, or may be, applicable to our business. Our distributor customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us.

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. We may be required to incur significant costs to comply with these laws and regulations in the future. Unanticipated changes in existing regulatory requirements or adoption of new requirements could have a material adverse effect on our business, financial condition and results of operations.

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EUROPEAN UNION

Pursuant to 93/42/ EEC, the Medical Device Directives of the European Union, the European Union has promulgated rules that require commercial medical products to bear the CE mark. The CE mark allows us to market our products throughout the European Economic Area. Both Trauson Jiangsu and Orthmed Changzhou's production facilities have received ISO 9001 Quality Systems certification and ISO 13485 certification. Failure to obtain such certifications and passing repeated inspections may affect our ability to continue to affix the CE mark to our approved products.

We have received regulatory approval to affix the CE mark to an approved range of our products, including lockable intramedullary nails, cable grip, bone plates, bone screws, general spine system, orthopaedic instruments and external fixation. Failure to receive regulatory approval to affix the CE mark would restrict us from selling these products in the European Economic Area.

OFAC REGULATIONS

The US Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers certain laws and regulations, or US Economic Sanctions Laws, that impose restrictions upon US persons with respect to activities or transactions with certain countries, governments, entities and individuals that are the subjects of US Economic Sanctions Laws, or sanction targets. Our products have been exported to certain countries that are sanction targets. During the Track Record Period, an immaterial amount of our revenue was generated from sales to countries that are subjects of OFAC sanction programmes. We may continue to conduct business activities in countries that are subjects of OFAC sanction programmes in the future. Further, we cannot assure you that our products will not be on-sold to countries that are subjects of US Economic Sanctions Laws. As a non-US corporation, we are generally not subject to sanctions administered by OFAC. However, US persons are generally prohibited from facilitating such business activities. The engagement of business activities in or the resale of our products to sanctioned countries could limit our ability to pursue business opportunities in the United States or obtain financing from the United States as potential business partners and investors may be subject to the OFAC sanction programmes. The occurrence of any of the foregoing events could affect our sales to overseas markets, results of operations and financing position. Also, some US investors may forgo the purchase of our Shares, which could affect the value of our Shares and your investment in us.

For the purpose of the foregoing paragraph, the term "US Economic Sanctions Laws" includes all US sanctions administered by OFAC, including but not limited to US regulations codified in Chapter V of title 31, US Code of Federal Regulations, all US Executive orders, proclamations, and regulations issued under the 169 authority of the Trading with the Enemy Act, the International Emergency Economic Powers Act, the International Security and Development Cooperation Act, the Antiterrorism and Effective Death Penalty Act, the Cuban Liberty and Democratic Solidarity (Libertad) Act and the United Nations Participation Act, the aforementioned statutes themselves and all orders, licenses or rules issued under the authority of any of the foregoing.

We will not use any of the proceeds of the Global Offering to fund activities that a US corporation would be prohibited from undertaking under sanctions administered by OFAC.

INDUSTRY OVERVIEW

This section contains information and statistics relating to our industry and related industry sectors, some of which has been derived from official governmental and other public sources, and a report prepared by China Orthopaedics. We believe that the sources of this information are appropriate sources for such information and 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 Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

OVERVIEW OF THE PRC HEALTHCARE MARKET

Our business operates in the large and rapidly growing healthcare industry in China. The healthcare industry in China is supported by a number of favourable socio-economic factors such as the growth of China's economy, the large and ageing population, improvement of living standards, increased health consciousness and active PRC government support.

Primary growth drivers of the healthcare industry in China

Economic growth and rising income level

The PRC economy is one of the world's fastest growing economies. According to the National Bureau of Statistics of China, the nominal GDP of China in 2009 was RMB33,535 billion, representing a CAGR of 16.0% since 2005 and a 6.8% annual growth in 2009. From 2005 to 2009, the per capita GDP of China also increased from RMB14,144 to RMB25,125, representing a CAGR of 15.4%. The following chart illustrates the growth of China's nominal GDP and per capita GDP in the periods indicated:



Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

With rising living standards and increasing disposable income, people in China have become more health conscious. These developments have resulted in both Chinese nationals spending more on healthcare. According to World Health Organisation, the PRC healthcare spending per capita has increased from approximately US\$81.1 in 2004 to approximately US\$146.6 in 2009.

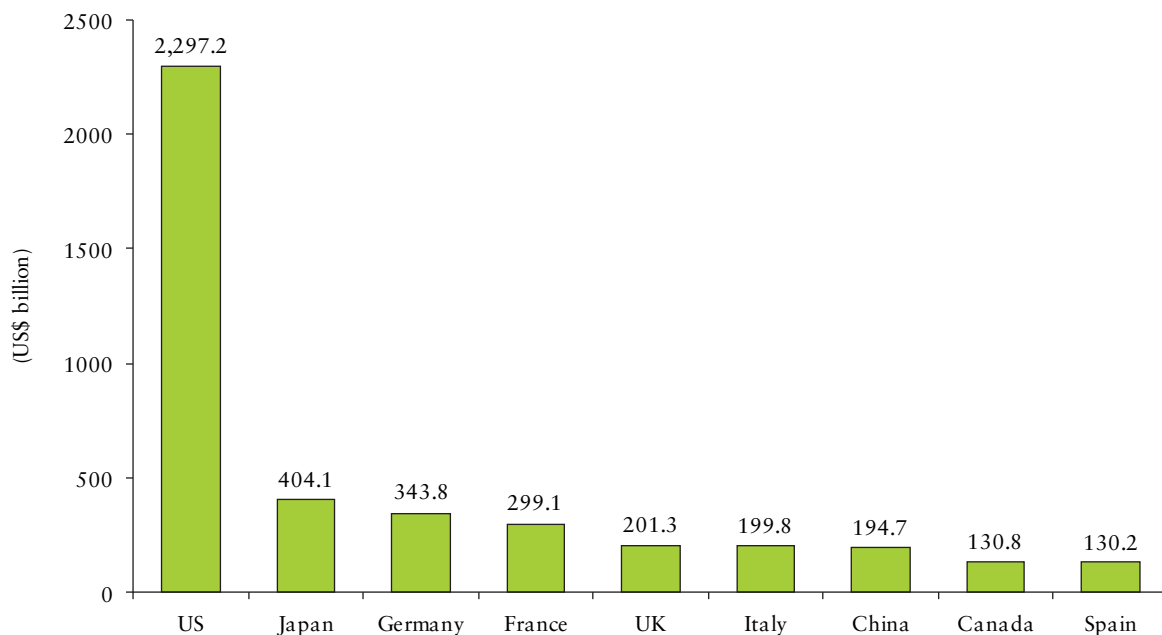
Ageing population and increased life expectancy

The significant growth of China's ageing population, which historically spends relatively more on healthcare than the population at large, is expected to drive demand for healthcare in China. According to National Bureau of Statistics of China, the proportion of the population aged 65 or above in China has increased from approximately 7.6% in 2004, or approximately 98.6 million people, to approximately 8.5%, or approximately 113.1 million people, in 2009. Rising life expectancy is also expected to contribute to the growth of China's ageing population, both as an absolute number and as a percentage of the total population. We believe that the ageing population in China will drive the growth of the PRC healthcare industry.

Healthcare spending and development

According to information provided by the World Health Organisation, China ranked seventh among the World Health Organisation's member nations in terms of healthcare spending in 2009. Compared to the United States, which is currently the world's largest healthcare market, China spends a relatively smaller amount on healthcare. In 2009, China spent approximately US\$194.7 billion on healthcare, compared to US\$2,297.2 billion spent by the United States in the same year. Nonetheless, the PRC healthcare spending per capita has grown significantly, increasing from US\$81.1 in 2004 to US\$146.6 in 2009, representing a CAGR of 12.6%. The following chart illustrates the total spending of the largest healthcare markets in 2009:

Total spending of the largest healthcare markets in 2009



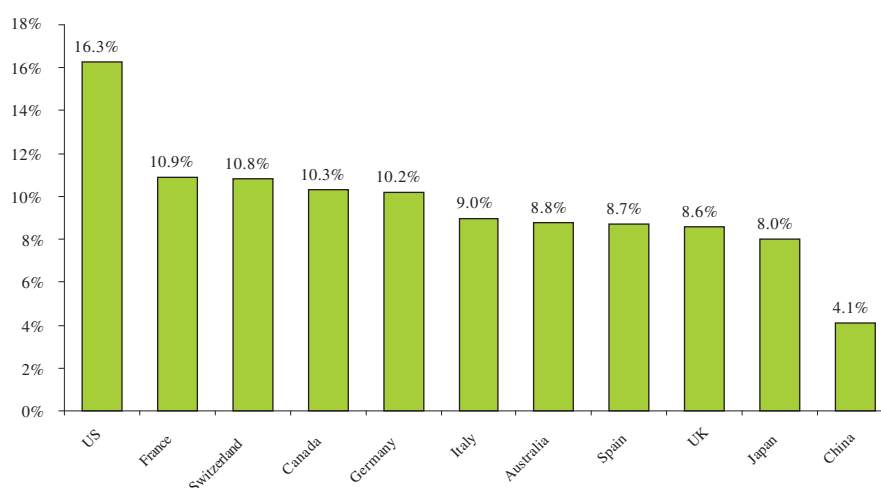
Source: World Health Organisation

INDUSTRY OVERVIEW

According to the World Health Organisation, China's spending on healthcare as a percentage of GDP was low compared to that of other industrialised nations, amounting to approximately 4.1% in 2009, compared to 10.9% for France and 16.3% for the United States. According to the World Health Organisation, the average healthcare spending of most developed countries (other than the United States) accounts for 8% to 11% of GDP. We believe that China's healthcare spending relative to its GDP will rise significantly and become more aligned with those of developed countries. In addition, we believe growth factors such as the rapid growth of China's economy, which has fuelled rising living standards and increasing health consciousness, as well as China's ageing population and active PRC government support, will enhance China's healthcare spending.

The following chart shows the total healthcare spending of selected countries in 2009 as a percentage of their GDP:

Healthcare spending as a percentage of GDP in 2009



Source: World Health Organisation

Increasing coverage of social medical insurance in China

The medical insurance programme for PRC citizens provided by the government is largely made up of three major components. The three major components are the Urban Worker Basic Medical Insurance Programme (“Urban Worker Programme”) (城鎮職工基本醫療保險), a mandatory scheme covering urban workers and their minor children, the Urban Resident Basic Medical Insurance Programme (“Urban Resident Programme”) (城鎮居民基本醫療保險), a voluntary programme that covers the rest of the urban residents not covered by the Urban Worker Programme, and the New Rural Cooperative Medical Insurance Scheme (“New Rural Co-op Insurance”) (新農村合作醫療保險), a voluntary scheme that provides medical coverage for the rural population.

The PRC government is moving towards achieving its announced goal of covering over 90% of the total population with medical insurance by 2011. As of 30 June 2009, the New Rural Co-op Insurance covers approximately 830 million rural residents, accounting for approximately 93.3% of the total rural population. The coverage of the two urban insurance programmes reached 336 million urban residents as of 30 June 2009.

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In addition to maximising the coverage of the healthcare programme, it is also the aim of the PRC government to provide better benefits under the programme. In the recently enacted RMB850 billion healthcare reform, the government announced that the annual subsidy for each participant will be increased to RMB120 for Urban Resident Programme participants and New Rural Co-op Insurance participants, starting from 2010. The reform plan will also raise the cap on claim payments from four times the local average annual income to six times such income.

Latest healthcare reform plan in the PRC

In September 2008, the State Council published a draft plan to ease the difficulties and minimise the costs for PRC nationals to obtain proper healthcare treatment. On 17 March 2009, the PRC government issued an Opinion on Intensifying the Healthcare System Reform (《關於深化醫藥衛生體制改革的意見》) (the “Opinion”). The State Council subsequently released the Notice on Important Implementing Plans for the Healthcare System Reform 2009-2011 (《醫藥衛生體制改革近期重點實施方案(2009-2011年)的通知》) (the “Implementing Plan”). The goal of the healthcare reform plan is to establish a basic, universal healthcare framework to provide Chinese nationals with safe, efficient, convenient and affordable healthcare.

Under the healthcare reform plan, the additional funding for the healthcare industry will primarily target four fundamental healthcare systems in China:

- The public health services system. This system focuses on preventing disease and promoting health as a complementary alternative to medical treatment. The public health services system will provide services such as immunisations, regular physical check-ups (for senior citizens over 65 years of age and children under three years of age), pre-natal and post-natal check-ups for women, prevention of infectious or chronic diseases and other preventative and fitness programmes.
- The public medical insurance system. This system covers drugs and medical treatments for the majority of the population. The healthcare reform plan will retain the framework of the current public medical insurance schemes under the national programme, but will expand them to cover more of the population and increase the scope of treatments, raise the cap on claim payments and cover more claims at higher percentages.
- The public healthcare delivery system. One of the primary goals of the Implementing Plan is to build more healthcare facilities and to improve the training of healthcare professionals. Beyond additional public wellness centres, the reform plan aims to place a medical clinic in every village and a hospital in every county by 2011. In addition, the PRC government will encourage private investors to invest in public non-profit hospitals.
- The drug supply system. This system regulates pricing and how drugs will be procured, prescribed and dispensed in healthcare facilities. The healthcare reform plan will focus on pricing, procurement, prescription and dispensing of essential drugs.

The Opinion and the Implementing Plan direct relevant governmental authorities, including the National Development Reform Commission (NDRC), Ministry of Health and the SFDA, to adopt implementing regulations for the reforms outlined in the healthcare reform plan. Although the healthcare reform plan is expected to benefit our business, the full effect of the healthcare reform plan on our operations is as yet unclear.

INDUSTRY OVERVIEW

ORTHOPAEDIC PRIMER

Orthopaedics deals with a wide range of diseases and injuries to the musculoskeletal system in the human body. The musculoskeletal system provides form, stability and movement to the body, and primarily comprises of bones, muscles, joints, cartilage and connective tissues such as tendons and ligaments. Any damage to these elements of the musculoskeletal system could cause discomfort and disability. Therefore, orthopaedics is an important medical specialty and makes up a significant part of the healthcare expenditure. Diseases and injuries in the orthopaedics area can be treated with medical devices, prescription and over-the-counter pharmaceuticals, consumer health dietary supplements, surgeries and physiotherapies.

Traditionally, orthopaedic medical devices can be categorised into three types in terms of their physical structure: fixation devices, implants, and other supporting devices such as soft goods and bracing materials. Fixation devices mainly include rods, plates, screws, nails and frames, and are used to restrict or shape bone movement and positioning to facilitate healing. Implants are devices that wholly or partially substitute joints, bones, cartilages or other components in the musculoskeletal system. Implants for spine, hip, knee, elbow, shoulder and wrist are among the major products in this category. Soft goods and bracing devices are mainly for rehabilitation purposes and provide immobilisation, comfort and protection, and alleviation of pain. In recent years, certain developments have been made in using biological materials to treat selected orthopaedic conditions. The primary application currently for orthobiologics is to substitute or promote the regeneration of bones. Orthobiologics uses a wide array of materials including bone fractions harvested from the patient's own body or a donor, bio-ceramics, polymers, and other synthetic materials made of minerals, collagen and proteins. It also comes in a variety of forms such as solid shapes, gels and powders.

Therapeutically speaking, major segments of the orthopaedic medical device market include:

Trauma

Trauma refers to any body wound or shock produced by sudden physical injuries, such as from accident, injury or impact. The common causes of trauma in the orthopaedics context include traffic accidents, trips and falls, and being struck by or against sharp or rigid objects. Trauma can also be caused by disorders such as osteoporosis that weakens the bones.

Spine

Spine is among the most important bone systems in the human body as it holds the head, shoulder, pelvis and with connections to the upper and lower extremities and protects the spinal cord. Spine is primarily made up of small bones called vertebrae, intervertebral discs, ligaments, muscles and facet joints. The most common causes for spinal disorders include deformities, certain types of tumor, and the fracture, degeneration, or dislocation of the vertebrae and intervertebral discs. People with underlying conditions such as osteoporosis, osteoarthritis and other bone-weakening conditions are prone to spinal disorders.

Joint

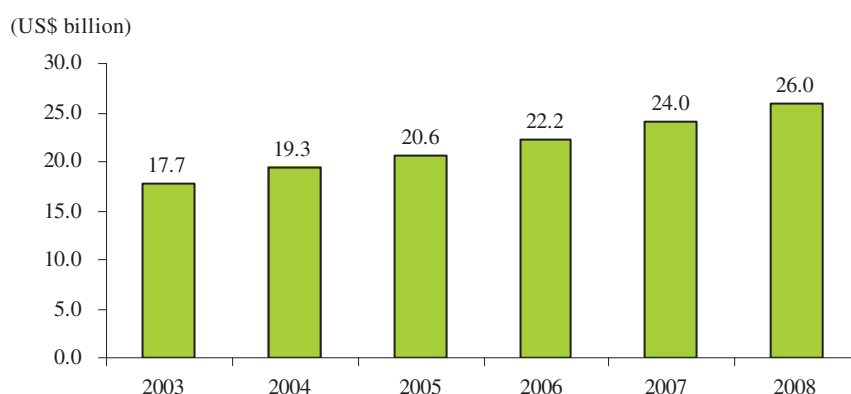
A joint is the area to which two or more bones are attached and facilitates motion of body parts. A joint is usually formed of fibrous connective tissues, cartilages and ligaments. Arthritis and direct physical trauma to a joint are the main causes of joint damages. Replacement of damaged joints with artificial joints is the standard and primary surgical method to treat joint conditions in most elderly patients.

INDUSTRY OVERVIEW

OVERVIEW OF GLOBAL ORTHOPAEDIC DEVICE MARKET

The global orthopaedic device market grew from US\$17.7 billion in 2003 to US\$26.0 billion in 2008, representing a CAGR of 8.0% over a period of five years, according to GlobalData, an independent market research firm. The growth of the world orthopaedic device market has been driven by the ageing population, more active life styles in later life, increasing personal care, earlier and better diagnosis, and technology innovation including minimally invasive surgery, new surgical methods and innovative products.

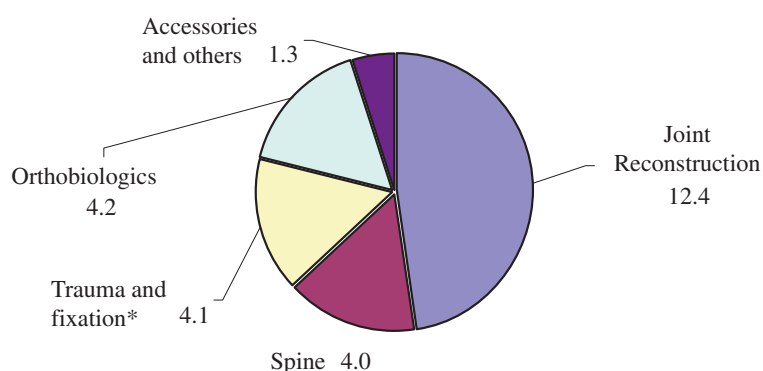
Global orthopaedics market 2003 to 2008



Source: GlobalData

In terms of therapeutic category, joint reconstruction represents the largest segment in 2008 according to GlobalData. Trauma and spine are also major categories. While orthobiologics also represents another important segment, due to its innovative nature, the market for orthobiologics segment is mostly concentrated in developed countries rather than developing economies.

Global orthopaedics market segments 2008 (US\$ billion)



* including supporting devices

Source: GlobalData

INDUSTRY OVERVIEW

According to the consulting firm Frost & Sullivan, the largest geographic market of the global orthopaedic device market is the Americas, accounting for approximately 61% of the worldwide sales. Europe accounts for about 24% of the global market, while Asia Pacific makes up the remaining 15%.

OVERVIEW OF CHINESE ORTHOPAEDIC DEVICE MARKET

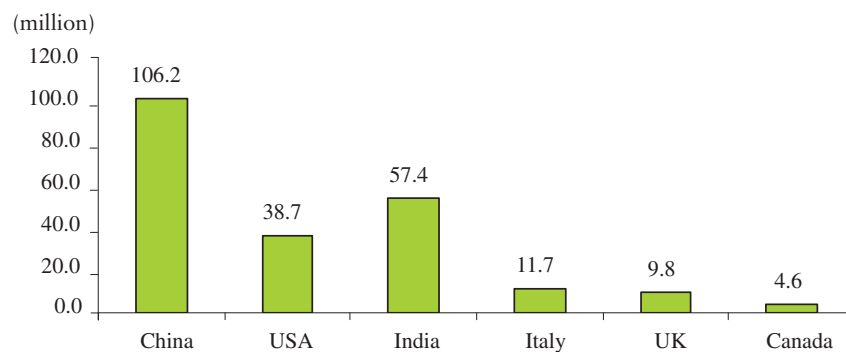
Growth drivers

The orthopaedic device market in China has enjoyed fast growth in recent years, driven by both the macro trends in the economy and healthcare spending discussed earlier in this section, and also specific factors including growing trend of more active lifestyle, willingness to treat conditions early, growth in both number and expertise of orthopaedic surgeons in China and others. The key drivers for the Chinese orthopaedics device market include:

Ageing population

Ageing is generally considered to be one of the most important factors for orthopaedic conditions as the wear and tear of the musculoskeletal system of the human body tend to decrease the quality of bones and create degenerative medical conditions in the elderly population. China, with its large and ageing population base, represents perhaps the largest addressable market in the world.

The chart below shows the size of the population aged 65 or above for selected countries in 2008:

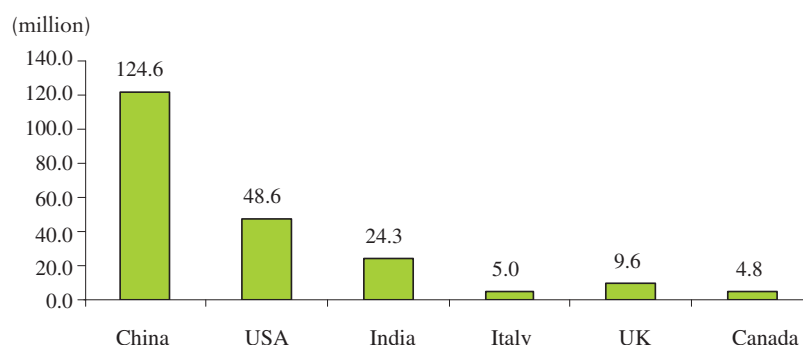


Source: Frost & Sullivan

Orthopaedic conditions such as arthritis are often correlated with ageing. Arthritis not only is a major cause of medical problems in joint, but also in trauma and spine, as it causes general weakness in the bone system.

INDUSTRY OVERVIEW

The chart below shows the prevalence of arthritis in selected countries in 2008 in terms of number of people who suffered from arthritis:



Source: Frost & Sullivan

Demand for more active lifestyle

The growing trend of more active lifestyle comes from both the young and elderly population in China. The increase in the level of economic activities, such as the use of machines in manufacturing, transportation needs, and construction work is a major contributor to orthopaedic conditions for the working population. On the other hand, the unwillingness of the elderly population to compromise with a restricted lifestyle is also an important growth driver for the orthopaedic market, as the elderly seek surgery and medical treatment to allow them to enjoy a more active life.

Increase in affordability and willingness to treat orthopaedic conditions

In the past, due to limited disposable income, lack of awareness and absence of modern orthopaedic solutions, patients in China often only seek medical treatment for orthopaedic problems when the disease or injury has progressed to immobility and disability. Economic developments and growing awareness of orthopaedic problems, as well as increases in willingness to restore life quality, have encouraged people to seek medical help for orthopaedic disease and contributed to the growth of the market.

Increasing number of orthopaedic surgeons with expanding knowledge base

Orthopaedic surgery is a medical specialty that requires in-depth specialised knowledge and systematic training. In the past the knowledge base of the orthopaedic surgeons in China was limited due to lack of product innovation and exposure to the latest medical development in this field. As interactions between surgeons in China and the medical community in the western world in the last 20 years increased, coupled with the increasing penetration of western orthopaedic companies into China, both the number of surgeons and their knowledge base have been growing. According to an article published in the MDWeekly (醫師報), a weekly newspaper published in the PRC focused on the latest developments in medical research targeted at hospital directors, hospital department heads and medical specialists, as well as field experts and industry audiences, it is estimated that in 2007 China has approximately over 40,000 orthopaedic surgeons with a large variance in knowledge, equipment and capabilities. We expect the expertise and number of orthopaedic surgeons in China to continue to increase and contribute to the growth of the orthopaedic device market in the country.

INDUSTRY OVERVIEW

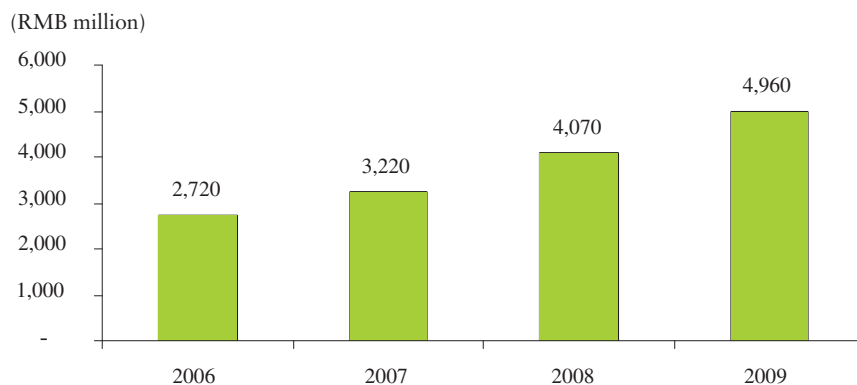
Technological innovation

Introduction of innovative products and new surgical methods into China has also played an important role in the growth of the Chinese orthopaedic device market. Introduction of techniques such as kyphonplasty and minimally invasive surgery, and products such as modern joint replacement devices has created new markets or largely expanded existing ones. Technological innovation will continue to help drive the growth of this market.

Market size and growth

Due to the factors discussed above, the orthopaedic device market in China has shown substantial growth over the past several years. The three major segments of the Chinese orthopaedic device market are trauma, spine and joint. All three have exhibited fast growth. According to the market research by China Orthopaedics, the PRC trauma orthopaedic products market grew from RMB950 million in 2006 to RMB1,670 million in 2009 at a CAGR of 20.7% over a period of four years; the PRC spine orthopaedic products market grew from RMB780 million in 2006 to RMB1,490 million in 2009 at a CAGR of 24.1% over a period of four years; and the PRC joint orthopaedic products market grew from RMB990 million in 2006 to RMB1,800 million in 2009 representing a CAGR of 22.1% over a period of four years. Collectively the three segments expanded from RMB2,720 million in 2006 to RMB4,960 million in 2009 at a CAGR of 22.2%.

The chart below shows the collective size of the trauma, spine and joint markets in China for the period indicated:



Note: market value calculated using ex-manufacturer prices

Source: China Orthopaedics

Distribution

Both global and domestic orthopaedic device manufacturers use distributors in China to supply goods to hospitals. Distributors handle logistics, payment collection from hospitals, and in some cases assist manufacturers in hospital bidding processes and organise education seminars and events with surgeons and hospitals. Orthopaedic devices come in a wide range of sizes and shapes and a large number of SKUs, therefore hospitals in China typically hold little inventory for orthopaedic devices to save space and minimise capital needs. Hospitals rely on distributors to provide localised and just-in-time responses to their surgical needs for orthopaedic device products and related tools.

INDUSTRY OVERVIEW

It is essential for distributors to have local presence close to target hospitals. As developing and maintaining an in-house distribution network that can cover thousands of hospitals locally is cost-prohibitive and inefficient, manufacturers typically rely on a well established network that often comprises of hundreds of distributors to handle supply chain needs for their products.

Competition and major orthopaedic device players in China

The orthopaedic industry is a highly specialised industry with barriers to entry, such as significant time and resources required for product development, complex and often time-consuming approval process required to obtain product licences, highly regulated nature of the business, complicated hospital tender process and other factors. The orthopaedic device makers in China can be categorised into international companies and domestic players. For all players, comprehensive and high quality product offerings, respected and trusted brand, expansive distribution network, good relationship with hospitals and opinion leaders, and excellent after-sale services are among the most important success factors.

The international firms focus more on the high-end of the market with premium products and premium pricing. In general, they are also more capable of providing the latest clinical training and education to doctors. Geographically the international players focus on the most economically-developed and wealthy urban areas. Over the recent years the leading domestic companies have been trying to adopt certain elements of the business model of their international peers, including focusing on quality standard, achieving critical mass and investing in educational support to doctors. The leading domestic players compete on affordable prices. They also put particular emphasis on second and third tier cities and wealthy rural areas in China.

Major players in the PRC trauma orthopaedic products market

The table below lists the top 10 trauma device manufacturers in China by market share based on estimated sales value in 2009.

	<u>Company</u>	<u>Type</u>	<u>Market share 2009</u>
1	Synthes, Inc.	International	13.8%
2	Trauson	Domestic	8.4%
3	Kanghui Medical Innovation Co., Ltd.	Domestic	5.1%
4	Shandong Weigao Group Medical Polymer Co., Ltd.	Domestic	3.6%
5	Beijing Libeier	Domestic	2.7%
6	Tianjin Walkman Biomaterial Co., Ltd.	Domestic	2.3%
7	Stryker Corporation	International	2.2%
8	Suzhou Xinrong Best Medical Instrument Co., Ltd.	Domestic	2.1%
9	Smith & Nephew	International	2.0%
10	Johnson & Johnson (DePuy)	International	1.8%

Source: China Orthopaedics

Note: Trauson sales include sales under "Trauson" and "Orthmed" brands.

INDUSTRY OVERVIEW

According to China Orthopaedics, the largest player in the orthopaedic trauma device market in China is Synthes Inc., an international company, with a market share of 13.8%. It is also the fastest growing manufacturer among the top five players, with a 2007-2009 CAGR of 33%. Trauson is the second largest player with market share of 8.4% and also the second fastest growing among the top five players with a 2007-2009 CAGR of 27%.

Major players in the PRC spine orthopaedic products market

The table below lists the top 10 spine device manufacturers in the PRC by market share based on estimated sales value in 2009.

	Company	Type	Market share 2009
1	Medtronics, Inc.	International	13.3%
2	Johnson & Johnson (DePuy)	International	11.1%
3	Shandong Weigao Group Medical Polymer Co., Ltd.	Domestic	8.1%
4	Synthes, Inc.	International	7.4%
5	Stryker Corporation	International	5.7%
6	Trauson	Domestic	3.0%
7	LDR Holding Corporation	International	2.9%
8	Kanghui Medical Innovation Co., Ltd.	Domestic	2.6%
9	Suzhou Xinrong Best Medical Instrument Co., Ltd.	Domestic	2.1%
10	Beijing Orthopaedic Innovation, Inc.	Domestic	1.9%

Source: China Orthopaedics

Note: Trauson sales include sales under "Trauson" and "Orthmed" brands.

Compared to the trauma market, the PRC spine orthopaedic products market is dominated by international companies relative to the domestic ones. Shandong Weigao is the only domestic player among the top five. According to China Orthopaedics, Synthes is the fastest growing company among the top five spine manufacturers in China with a 2007-2009 CAGR of 32%, followed by Shandong Weigao with a 2007-2009 CAGR of 27%.

More stringent manufacturing standards in China

The Chinese regulators have adopted initiatives to enhancing the regulation and standards for manufacturing medical devices in China. In 2006, they started a pilot programme of establishing the Good Manufacturing Practices (GMP) for medical device makers. The pilot programme selected a number of leading domestic medical device manufacturers. Among them are 13 orthopaedic companies, including Trauson Jiangsu and Orthmed Changzhou who have been certified to be in compliance with the newly established GMP in 2007. The government has announced that the results of the pilot programme were satisfactory and all medical device manufacturers must become compliant with the GMP on a mandatory basis starting from 1 July 2011 when they apply for or renew their product registration certificates. This is expected to not only enhance the manufacturing quality in the industry, but also present opportunities for leading players to increase their market share as the smaller companies struggle to meet the new standard.

INDUSTRY OVERVIEW

Pricing, hospital tender and insurance reimbursement

Unlike the majority of prescription drugs, orthopaedic devices are not subject to mandatory government price ceilings in the majority of the regions in China, although they are still eligible for reimbursement from the government insurance programmes. Pricing for orthopaedic devices are determined at the provincial or local levels through a tender process conducted by local governments for hospitals in their jurisdictions. The bids submitted by manufacturers are reviewed by government-approved expert panels primarily made up of leading physicians and hospital administrators. The panel reviews various attributes of the product including quality, brand, safety track record, physician preference, price and other factors. Winning the tender enables the product to be eligible for hospital purchase but does not guarantee actual sales, as the final purchase decisions are made by the hospitals. In general, more mature products are likely to be subject to higher pricing pressure.

Orthopaedic surgery and devices are generally covered under government medical insurance programmes. However, the reimbursement percentage and cap are determined by local governments and vary across regions. The reimbursement percentage can be as low as less than 50% and as high as 100%, depending on the type of surgery and device. In general, reimbursement percentages tend to be higher for domestically manufactured products than for imported products made by international firms.

REPORT COMMISSIONED FROM CHINA ORTHOPAEDICS

China Orthopaedics is an independent market research company and publisher based in China focusing on the Chinese orthopaedics industry. It has been providing market research and industry information service to industry participants since 2002, including to some global and domestic orthopaedics companies. Since 2005 it has been the publisher of the periodical professional journal China Orthopaedics, and the website www.coa.org.cn, which serves the China Orthopaedic Association, an industry association established in 1980.

Owing to its extensive industry contacts and reputation as a publisher of a widely circulated professional journal in the medical device industry, we commissioned China Orthopaedics to conduct an analysis of, and to report on, the orthopaedic market in China for the period from 2006 to 2009. The report commissioned has been prepared by China Orthopaedics independent of our influence. We paid China Orthopaedics a service fee for issuing the report.

The China Orthopaedics report we commissioned includes information on the PRC orthopaedic market, and broken down by segment, such as market share and ranking of international and domestic companies, sales value, which are quoted in this prospectus. China Orthopaedics' independent research was undertaken through both primary and secondary research obtained from various sources within the PRC orthopaedic industry. Primary research involves interviewing leading industry participants including international and domestic orthopaedic companies, medical device distributors and hospitals. Secondary research involves reviewing company reports, independent research reports and data based on China Orthopaedics' own research database.

HISTORY AND DEVELOPMENT

HISTORY AND DEVELOPMENT

Our Company was incorporated in the Cayman Islands on 27 January 2010. In preparation for the Listing, we underwent the Reorganisation to streamline our group structure and, as a result, our Company became the holding company of our subsidiaries. As at the date of this prospectus, we are owned as to approximately 90.1% by Luna Group and as to approximately 9.9% by Honest Fame. Luna Group is wholly owned by Ms Xu and Honest Fame is wholly owned by CCBI. We own 100% of all of our subsidiaries.

HISTORY

Our chairman has extensive experience in the research, development and manufacture of orthopaedic products. For example, he was the legal representative of Wujin No. 3 Medical Devices Factory (武進第三醫療器械廠), an entity engaged in the production and sale of orthopaedic products in China, as early as 1994. While Mr Qian did not hold any equity interest in Wujin No. 3 Medical Devices Factory, he was overall responsible for the enterprise. In 2002, our chairman together with Ms Xu, decided to capitalise on our chairman's experience and expertise acquired in the PRC orthopaedic industry and established Orthmed Changzhou, one of our principal operating subsidiaries. Orthmed Changzhou's establishment marks the official inception of our Group.

Trauson Jiangsu

Trauson Jiangsu, one of our principal operating subsidiaries, was established on 18 September 2003 as a limited liability company under the name Changzhou Wujin No. 3 Medical Devices Company Limited (常州市武進第三醫療器械廠有限公司). On establishment, it had a registered capital of RMB3.8 million, and was held as to 70% by Mr Qian Song, 20% by Ms Xu and the balance by an independent third party. Mr Qian Song is a son of Ms Xu and our chairman. The business scope of Trauson Jiangsu back then included the manufacture of Class II and Class III orthopaedic surgical instruments. On 8 October 2005, the 10% interest in Trauson Jiangsu held by the independent third party was transferred to Mr Qian Xiao Jin, a son of Ms Xu and our chairman and the brother of Mr Qian Song at a consideration of RMB380,000, representing 10% of the then registered capital of Trauson Jiangsu.

On 12 December 2005, Trauson Jiangsu resolved to increase its registered capital to RMB5 million. The increased registered capital of RMB1.2 million was paid in cash by Mr Qian Song. After the capital increase, Trauson Jiangsu was owned as to 77.2% by Mr Qian Song, 15.2% by Ms Xu and the balance of 7.6% by Mr Qian Xiao Jin. On 27 December 2005, the entire equity interest in Trauson Jiangsu was transferred to Trauson Hong Kong for a cash consideration of RMB5 million, representing the then registered capital of Trauson Jiangsu, and Trauson Jiangsu has since become a wholly foreign owned enterprise. At around the same time, Trauson Jiangsu changed its name to Jiangsu Trauson Medical Instrument Company Limited (江蘇創生醫療器械有限公司). On 12 January 2006, Trauson Jiangsu adopted its current name, Trauson Medical Instrument (Jiangsu) Company Limited (創生醫療器械(江蘇)有限公司). On 12 April 2007, Trauson Jiangsu resolved to capitalise RMB26 million of its undistributed profits and as a result, its paid up registered capital was increased from RMB5 million to RMB31 million.

HISTORY AND DEVELOPMENT

Orthmed Changzhou

Orthmed Changzhou, another principal operating subsidiary of our Company, was set up on 4 December 2002 as a wholly foreign owned enterprise with limited liability with a registered capital of US\$300,000. On establishment, it was indirectly wholly owned by Ms Xu.

Orthmed Changzhou and Trauson Jiangsu are strategically located close to each other and the two production facilities are only approximately 15 kilometres apart. The business scope of Orthmed Changzhou includes the production of medical devices (Class III 6848 surgical implants and artificial organs and Class II 6810 orthopaedic surgical instruments) and the sale of its own manufactured products. The registered capital of Orthmed Changzhou was increased to US\$5.6 million in September 2005. On 13 December 2007, the entire equity interest in Orthmed Changzhou was transferred to Orthmed Hong Kong for a cash consideration of US\$5.6 million, being the then registered capital of Orthmed Changzhou.

Trauson Hong Kong

On 27 December 2005, the entire equity interest in Trauson Jiangsu was transferred to Trauson Hong Kong for a cash consideration of RMB5 million, representing the then total registered capital of Trauson Jiangsu. Trauson Hong Kong is a company incorporated in Hong Kong with limited liability on 18 November 2005. It has an issued share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, and was wholly beneficially owned by Ms Xu until it was transferred to Trauson Holdings HK on 10 March 2010 pursuant to the Reorganisation Agreement.

Since December 2005, Trauson Hong Kong has remained the holding company of Trauson Jiangsu.

Orthmed Hong Kong

On 13 December 2007, the entire equity interest in Orthmed Changzhou was transferred to Orthmed Hong Kong for a cash consideration of US\$5.6 million, representing the then total registered capital of Orthmed Changzhou. Orthmed Hong Kong is a company incorporated in Hong Kong with limited liability on 18 October 2007. It has an issued share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, and was wholly beneficially owned by Ms Xu until it was transferred to Trauson Holdings HK on 10 March 2010 pursuant to the Reorganisation Agreement.

Since December 2007, Orthmed Hong Kong has remained the holding company of Orthmed Changzhou.

HISTORY AND DEVELOPMENT

Trauson Longcheng

To cater for the continued growth of our business, we are constructing a larger production facility in Changzhou Wujin Hi-Tech Zone to increase our production capacity and to replace the existing production facility of Trauson Jiangsu. The site where the new production facility will be located was originally acquired by Trauson Longcheng. Trauson Longcheng was established in the PRC as a sino-foreign equity joint venture enterprise with limited liability on 14 April 2008, and was owned as to 95% by Trauson Hong Kong and 5% by Trauson Jiangsu. To streamline the corporate structure of our Group and in order to enable the new production facility to operate under the various existing production permits and product registration certifications granted by the food and drug administration to Trauson Jiangsu, we merged Trauson Longcheng into Trauson Jiangsu. The merger was effected by way of a merger by absorption and approved by the Jiangsu Department of Commerce. Following the merger, which was completed on 5 February 2010, all the assets and business of Trauson Longcheng were transferred to Trauson Jiangsu and Trauson Longcheng was subsequently deregistered.

When Trauson Longcheng first acquired the current site in Wujin Hi-Tech Zone, it was for a larger site area of approximately 118,655 square metres. Subsequent to the purchase and as the planning for the relocation of the production facility of Trauson Jiangsu became clear, we decided that approximately half of the size of the site would be sufficient for our current expansion plan. Further, our Directors believe disposal of the surplus portion of the site would release capital which may be more efficiently used in other areas of our business. Accordingly, we disposed of approximately 59,475 square metres of the site to Wujin Reserve Centre for a cash consideration of RMB14,987,616 which was settled in full on 22 April 2010. Following the disposal, we retained an area of approximately 59,181 square metres. The construction of phase one of the new production facility commenced in July 2009 and is expected to be completed by the end of 2010. Phase one of the new production facility will have a total gross floor area of approximately 32,153 square metres. The production capacity of Trauson Jiangsu will increase considerably following completion of the relocation to the new facility. For further details of the new production facility and its expected production capacity, please refer to the section headed “Business — Production process — Production facilities” in this prospectus.

HISTORY AND DEVELOPMENT

BUSINESS MILESTONES

The following sets out our major business development and achievements:

- December 2002 Orthmed Changzhou, one of our principal operating subsidiaries, was established
- September 2003 Trauson Jiangsu, another principal operating subsidiary of our Company was established
- March 2004 Trauson Jiangsu's production facility received ISO 9001 Quality Systems certification and ISO 13485 certification
- July 2005 Trauson Jiangsu obtained CE marks issued by TÜV SÜD Product Service GmbH in Germany for an approved range of products
- April 2007 Orthmed Changzhou entered into a long-term OEM agreement with a leading global medical device manufacturer to produce specialty orthopaedic surgical instruments
- October 2007 Our Trauson trademark  was recognised as a “China Well-known Trademark” (中國馳名商標), making us the only company in the PRC orthopaedic industry to have achieved such a status according to China Orthopaedics
- November 2007 Trauson Jiangsu was recognised as a “New High-Tech Enterprise” for the first time and was recognised again in 2008

Both Trauson Jiangsu and Orthmed Changzhou were certified to have met GMP standards (*Note*)
- July 2008 Trauson Jiangsu obtained USFDA 510(k) clearance for two models of its bone screws
- January 2009 By then, Trauson Jiangsu obtained a total of four USFDA 510(k) clearances, in respect of its bone screws, bone plates, intramedullary nails and general spine systems
- July 2009 Construction of a new production facility for Trauson Jiangsu at Wujin Hi-Tech Zone, Changzhou City commenced

Note:

Compliance with the GMP standards, or the Good Manufacturing Practice standards, by medical device manufacturers, is not mandatory until 1 July 2011. Currently, we are only required to obtain production permits and product registration certificates from the respective food and drug administration and business licences for our business operation in China.

HISTORY AND DEVELOPMENT

REORGANISATION

In preparation for the Listing, our Group underwent the Reorganisation which included the following steps:

Establishment of our Company

On 27 January 2010, our Company was incorporated in the Cayman Islands under the name of Trauson Holdings Company Limited. Our Company's initial authorised share capital was HK\$10,000,000,000, divided into 100,000,000,000 shares of HK\$0.10 each, of which one Share was allotted and issued to Mapcal Limited as the sole subscriber. On 27 January 2010, the one issued Share was transferred from Mapcal Limited to Ms Xu at par. On 4 February 2010, Ms Xu further transferred the one Share to Luna Group, a company wholly owned by Ms Xu, at par.

Establishment and reorganisation of our intermediate holding companies

- (i) On 27 January 2010, Trauson Holdings BVI was incorporated in the BVI. Trauson Holdings BVI is authorised to issue a maximum of 50,000 shares of US\$1.00 each, of which one share was allotted and issued to our Company as the sole subscriber.
- (ii) On 10 November 2008, Trauson Holdings HK was incorporated in Hong Kong with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each, all of which were allotted and issued to Ms Xu as the sole subscriber. On 7 February 2010, Trauson Holdings BVI acquired the entire issued share capital of Trauson Holdings HK from Ms Xu at a consideration of HK\$10,000.
- (iii) On 10 March 2010, pursuant to the Reorganisation Agreement, our Company, through Trauson Holdings HK, acquired the entire issued share capital of Trauson Hong Kong and Orthmed Hong Kong from Ms Xu. In consideration for the acquisition, our Company allotted and issued 562,499,999 Shares credited as fully paid to Luna Group, a company wholly owned by Ms Xu.

Reorganisation of our PRC subsidiaries

- (i) On 8 September 2009, Trauson Jiangsu transferred its entire equity interest, representing 40% of the registered capital, in an associate, Duoliang Investment, to Mr Qian Fu Qing for a consideration of RMB11 million, being the amount of capital contributed by Trauson Jiangsu into Duoliang Investment. Duoliang Investment, which was established by Mr Qian Fu Qing and Ms Xu in March 2008, is an investment holding company which currently holds approximately 60.4% interest in Shanghai Rebone. The sole business of Shanghai Rebone is the manufacture and sale of artificial bones. As the businesses of Duoliang Investment and Shanghai Rebone are not related to the business of our Group, Duoliang Investment was excluded from our Group. Further details of the business of Shanghai Rebone are set out in the section headed "Controlling Shareholders — Independence from controlling shareholders — Non-competition undertaking from our controlling shareholders".
- (ii) On 28 December 2009, Trauson Hong Kong transferred its entire equity interest, representing 100% of the registered capital, in Trauson Liyang to Fully Creation Investment Limited, a company wholly owned by Mr Qian Fu Qing for a consideration of approximately HK\$11 million, which was determined based on Trauson Hong Kong's costs of investment in Trauson Liyang. Trauson Liyang was acquired by Trauson Hong Kong in 2006. According to the business licence of Trauson Liyang, it is permitted to conduct the business of agricultural

HISTORY AND DEVELOPMENT

products processing, plant cultivation and sale of its own produced products. However, Trauson Liyang has not commenced any of such business operations and currently its primary asset is a villa in the PRC. As the business of Trauson Liyang is not related to the business of our Group, Trauson Liyang was excluded from our Group.

As advised by our PRC legal adviser, we have obtained all necessary approvals required under the PRC laws in connection with each step of the Reorganisation of our PRC subsidiaries referred to above for the purposes of the Listing.

Merger of Trauson Longcheng and Trauson Jiangsu

Concurrent with the Reorganisation, we merged the businesses of Trauson Longcheng and Trauson Jiangsu with a view to streamlining the corporate structure of our Group and in order to enable the new production facility held by Trauson Longcheng to operate under the various existing production permits and product registration certifications granted by the food and drug administration to Trauson Jiangsu. The merger was effected by way of a merger by absorption. Following the merger, which was completed on 5 February 2010, all the assets and business of Trauson Longcheng were transferred to Trauson Jiangsu and Trauson Longcheng was subsequently deregistered.

Since the commencement of the Track Record Period and until the end of October 2009, the trading of orthopaedic implants and medical instruments manufactured by our Group in Shanghai (the “Shanghai Trading Business”) was carried out by Shanghai Trauson Medical Instrument Company Limited, Shanghai Guang Yin Medical Instrument Company Limited and Shanghai Guang Yin Trading Company Limited (the “Old Shanghai Trading Entities”), whose sole operation during the Track Record Period was the Shanghai Trading Business. The Old Shanghai Trading Entities were established in the PRC with limited liability and were controlled by Ms Xu. To streamline the group structure, since November 2009, Trauson Jiangsu had gradually taken up the Shanghai Trading Business by selling our products to distributors directly, and the Old Shanghai Trading Entities ceased the relevant operations in December 2009. Accordingly, the Old Shanghai Trading Entities were not included in our Group.

OUR INVESTOR

On 19 March 2010, Honest Fame acquired 55,940,625 issued Shares (the “Pre-IPO Shares”) in our Company from Luna Group for a cash consideration of US\$17 million pursuant to a sale and purchase agreement dated 11 February 2010 (the “CCBI Sale and Purchase Agreement”) entered into among Luna Group, Honest Fame, CCBI, Ms Xu and Mr Qian Fu Qing. The purchase price for all the Pre-IPO Shares was calculated with reference to a price-to-earnings ratio of 14.2, based on the net profits of the Group for the financial year ended 31 December 2009. The Pre-IPO Shares represent (i) approximately 9.9% of the share capital of our Company in issue after the Reorganisation but before the Global Offering and (ii) approximately 7.5% of the share capital of our Company in issue after the Global Offering, assuming the Over-allotment Option is not exercised. The purchase price per share represents a discount of approximately 20.3% to HK\$2.98, being the mid-point of the indicative offer price range for the Offer Shares. Luna Group and Honest Fame are wholly owned by Ms Xu and CCBI, respectively.

HISTORY AND DEVELOPMENT

CCBI is a company incorporated in Hong Kong and is ultimately controlled by China Construction Bank Corporation, which is listed on the Stock Exchange and the Shanghai Stock Exchange (Stock code: HK.0939 and CH.601939, respectively). CCBI has invested in a number of pre-IPO projects in the PRC and Hong Kong as well as Hong Kong listed companies, covering such sectors as healthcare, energy and resources, infrastructure, consumer and real estate. CCBI, through its PRC subsidiary, has also recently established a CCBI healthcare fund namely CCB Healthcare Investment Management (Tianjin) Limited (建銀國際醫療保健投資管理(天津)有限公司) for the purpose of investing in, and thereby funding the future development of, healthcare related businesses established in the PRC.

We believe the acquisition of the Pre-IPO Shares by CCBI will enhance our shareholder profile. Following CCBI's acquisition of the Pre-IPO Shares, we and CCBI intend to explore ways to cooperate more closely together.

Major terms of the CCBI Sale and Purchase Agreement

Certain major terms of the CCBI Sale and Purchase Agreement are set out below:

Profit guarantee. Luna Group has given an undertaking to Honest Fame that in the event that the audited net profit of our Group for the year ending 31 December 2010 is less than 128% of the audited net profit of our Group for the year ended 31 December 2009 (“target profit”), Luna Group will pay Honest Fame in cash an amount equal to 14.2 times the shortfall of the target profit in accordance with Honest Fame's percentage shareholding in our Company. The profit guarantee will continue to exist following the Listing.

Put option. Luna Group has granted a put option to Honest Fame, exercisable if the Listing does not occur by 31 December 2011, to request Luna Group to repurchase all or part of the Pre-IPO Shares at a price equal to US\$17 million plus interest compounded at 15% per annum accruing from 19 March 2010 prorated to the number of Pre-IPO shares being sold under the put option until the date of completion of the sale of Shares pursuant to the exercise of the put option. The put option will automatically expire upon the Listing.

Pre-emptive and tag-along rights. If each of Luna Group and Honest Fame wishes to transfer any Shares to a third party, it shall first make an offer to sell such Shares to the other party. The proposed transferor may only transfer the Shares to a third party if the other party does not exercise the pre-emptive right. Honest Fame has the right to tag-along if Luna Group sells any Shares to a third party to the extent that it ceases to hold more than 50% of the issued share capital of our Company. These rights will automatically terminate upon the Listing.

Anti-dilution. Luna Group has agreed to procure our Company not to dilute the percentage shareholding of Honest Fame. Prior to the Listing, should our Company issue new Shares at a price per share which is lower than the purchase price per share paid by Honest Fame for the Pre-IPO Shares, Luna Group has agreed to transfer such number of Shares to Honest Fame on the same terms and at the same consideration so that Honest Fame's proportionate interest in our Company will

HISTORY AND DEVELOPMENT

remain the same as of the date of completion of the acquisition of the Pre-IPO Shares. In addition, Luna Group shall procure our Company not to issue any Shares to any person unless there are Shares not taken up by Honest Fame following our offer to Honest Fame in the proportion of our issued share capital held by Honest Fame. This right will automatically terminate upon the Listing.

Consent matters. Before the Listing, for so long as Honest Fame holds not less than 5% of our issued share capital, Luna Group shall procure that our Company shall not, without Honest Fame's prior written consent, take certain important actions, such as determining the Offer Price, conducting substantial financing, amending our memorandum of association or Articles of Association, creating or issuing equity securities, paying or declaring dividends or making other distributions on account of any share or equity capital prior to the payment of dividends to the holders of the Shares, creating or issuing debt securities, and changing the size, composition or powers of our Board. This right will automatically terminate upon the Listing.

Information rights. Subject to applicable laws and regulations, at any time prior to the Listing, Luna Group shall procure our Company to provide to Honest Fame the unaudited consolidated management accounts of our Group made up to and as at 31 March 2010 and such other operating statistics and other trading and financial information as Honest Fame may reasonably require. This right will automatically terminate upon the Listing.

Guarantees. The obligations of Luna Group are guaranteed by Ms Xu and Mr Qian Fu Qing, and the obligations of Honest Fame are guaranteed by CCBI. All guarantees will automatically terminate upon the Listing.

Share charge. As security for the performance of the obligations of Luna Group, Ms Xu and Mr Qian Fu Qing under the CCBI Sale and Purchase Agreement, Luna Group has given a charge in favour of Honest Fame in respect of 112,500,000 Shares, representing 20% of the issued share capital of our Company as at the date of the charge. The Share charge will be released upon the Listing.

Lock-up undertakings by Honest Fame and CCBI

Honest Fame and CCBI have given an undertaking to each of our Company and the Global Coordinator that they will not, until six months after the Listing Date, dispose of or otherwise transfer all or any part of the Pre-IPO Shares or any direct or indirect interest therein.

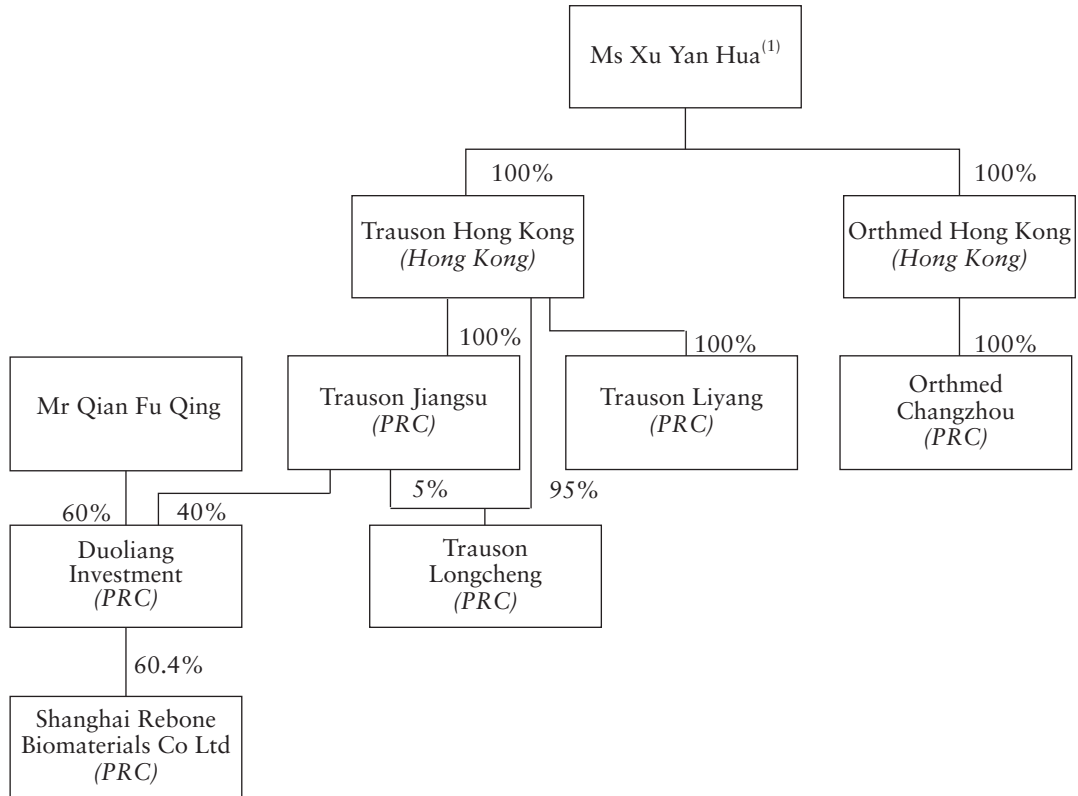
CCBI and Honest Fame are independent third parties, and save for the shareholding in our Company, they have no relationship with our Company and any of our connected persons.

HISTORY AND DEVELOPMENT

GROUP STRUCTURE

Before Reorganisation

The following diagram depicts the shareholding structure of the members of our Group immediately before the Reorganisation:



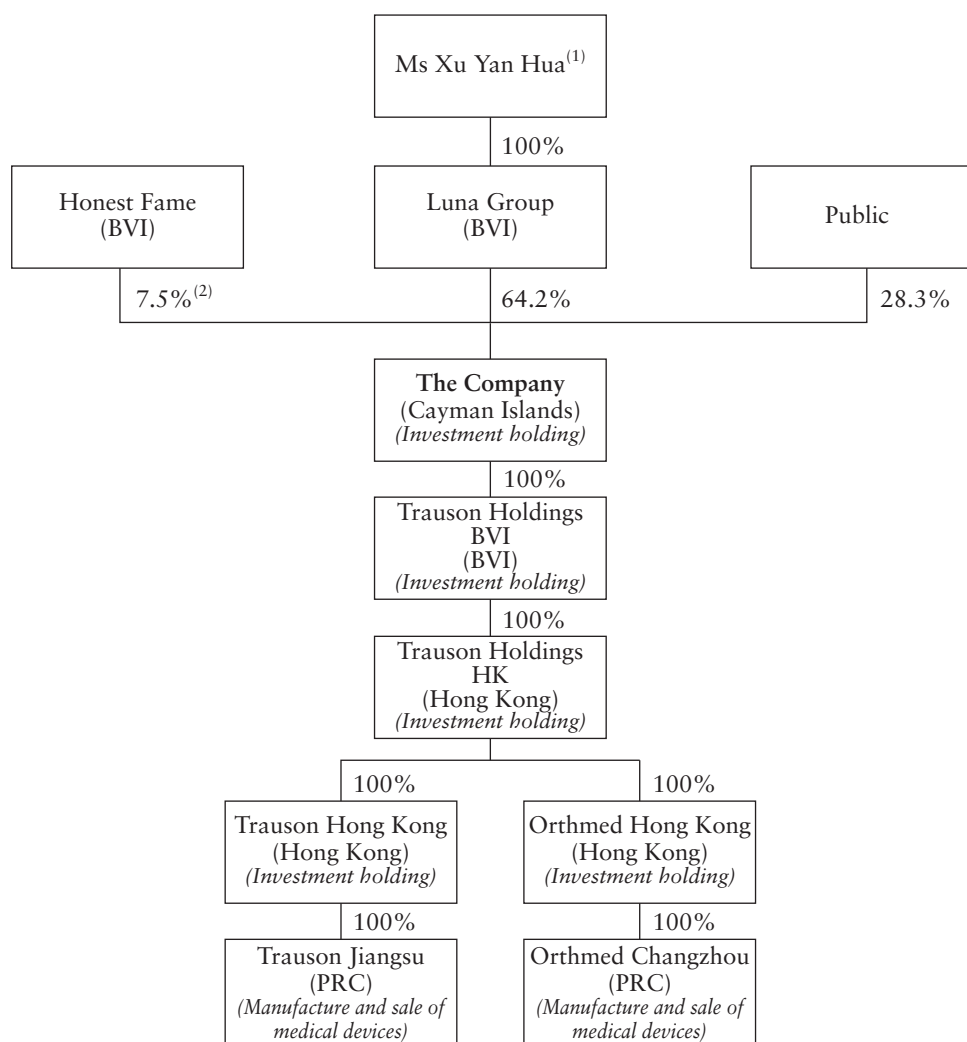
Note:

(1) Ms Xu is a non-executive Director and the spouse of our chairman.

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After Reorganisation

The following diagram depicts the shareholding structure of the members of our Group following the completion of the Reorganisation and the Global Offering (assuming that the Over-allotment Option is not exercised):



Notes:

- (1) Ms Xu is a non-executive Director and the spouse of our chairman.
- (2) The Shares held by Honest Fame will be counted towards part of the public float following the Listing.

After the Listing, the Shares held by the public will constitute at least 25% of our issued Shares.

HISTORY AND DEVELOPMENT

Foreign exchange control registration by our controlling shareholder

According to the “Notice on Issues Relating to Foreign Exchange Control on Fund Raisings by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments” issued by SAFE (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) and promulgated on 21 October 2005 (“Circular 75”), PRC domestic residents establishing or taking control of a special purpose company abroad and domestic enterprises receiving round-trip investments from funds raised by an offshore special purpose company controlled by domestic residents are required to effect foreign exchange registration with the local foreign exchange bureau.

As advised by our PRC legal adviser, King and Wood, the Reorganisation and the Global Offering are subject to Circular 75 as our controlling shareholder, Ms Xu, is considered to be a PRC domestic resident. Ms Xu completed the formalities required by Circular 75 for the registration and filing of an overseas investment by a PRC domestic resident with the Jiangsu Provincial Office of SAFE in respect of her investment holding in Luna Group and our Company in May 2010.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (“Circular 10”)

Orthmed Changzhou was established in December 2002 as a wholly foreign owned enterprise, which does not constitute “foreign acquisition” as regulated by Circular 10. The entire equity interest in Trauson Jiangsu was transferred to Trauson Hong Kong in December 2005, after which Trauson Jiangsu became a wholly foreign owned enterprise. Both the incorporation of Orthmed Changzhou and the acquisition of Trauson Jiangsu by Trauson Hong Kong took place before 8 September 2006, being the effective date of Circular 10. According to our PRC legal adviser, Circular 10 is therefore not applicable to either the incorporation of Orthmed Changzhou or the acquisition of Trauson Jiangsu.

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OVERVIEW

We are a leading producer of orthopaedic products in China. We design, manufacture and sell a broad range of trauma and spine orthopaedic implants and related surgical instruments. According to a market research conducted by China Orthopaedics and commissioned by us, we were the largest producer of trauma products, and one of the top three producers of spine products, among the PRC orthopaedic product manufacturers in 2009 in terms of market share.

Our products can be broadly classified into the following three categories:

- Trauma products — which are used for the surgical treatment of bone fractures of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet due to accidents or pathological or other reasons. Our trauma products are comprised of internal fixation devices such as cannulated and solid intramedullary nails, and standard and locking plates and screws.
- Spine products — which are used for the surgical treatment of spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons. Our spine products include pedicle screws, meshes, cages for spinal fusion, hooks, and anterior and posterior cervical fixation systems.
- Other products — which include orthopaedic cables, external fixators and surgical instruments.

We sell our products mainly under our own brands, Trauson and Orthmed. We also produce specialty surgical instruments under an OEM arrangement for a leading global medical device manufacturer. In addition, in May 2010 we entered into a distribution arrangement to distribute third-party produced spine products and surgical instruments for on-sale by our authorised distributors in the PRC to complement our existing product lines.

According to China Orthopaedics, we are one of the early entrants into the PRC orthopaedic market.

We believe the orthopaedic market and, in particular, producers with a wide distribution network such as ourselves will benefit from the recently announced healthcare reform in the PRC and the expected resulting increase in investment in the healthcare sector. In particular, we believe the reform's emphasis on primary and essential care is conducive to the growth in demand for trauma products as trauma injuries require immediate and localised medical response that qualifies as the type of primary and essential care provided by provincial, regional or local medical facilities favoured by the reform. We believe our business will also benefit from the expected growth in elective surgeries as a result of China's rising living standards, the spread of wealth into inner China, increased urbanisation and mobility of the population, the gradual ageing population and the increasing population of surgeons who are equipped to perform elective surgeries.


The PRC orthopaedic market is fragmented and dominated by several large international and domestic manufacturers and a number of small regional manufacturers which primarily operate in their local regions. According to the market research by China Orthopaedics, the PRC trauma orthopaedic products market grew from RMB950 million in 2006 to RMB1,670 million in 2009 representing a CAGR of 20.7% over the four-year period, the PRC spine orthopaedic products market grew from RMB780 million in 2006 to RMB1,490 million in 2009 representing a CAGR of 24.1% over the four-year period, and the PRC joint orthopaedic products market increased from

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RMB990 million in 2006 to RMB1,800 million in 2009 representing a CAGR of 22.1% over the four-year period. Collectively the three segments expanded from RMB2,720 million to RMB4,960 million from 2006 to 2009 representing a CAGR of 22.2%. According to China Orthopaedics, our Group's sales accounted for approximately 8.4% of the PRC trauma orthopaedic products market and approximately 3.0% of the PRC spine orthopaedic products market in 2009.

As at 31 December 2009, we had obtained from the PRC state or local food and drugs administration 87 product registration certificates, 29 of which are classified as Class III medical devices denoting that they meet or surpass the highest safety standards applicable to the design and manufacture of medical devices in China. In 2007, both Trauson Jiangsu and Orthmed Changzhou were among the first 13 orthopaedic companies certified to have met the non-mandatory Good Manufacturing Practices, compliance of which will become mandatory for all medical device manufacturers in the PRC when they apply for or renew their product registration certificates, starting from 1 July 2011. Outside China, Trauson Jiangsu has obtained USFDA 510(k) clearances for four types of products that it produces. We have also obtained CE marks issued by TÜV SÜD Product Service GmbH in Germany for an approved range of our products. The 510(k) clearances and CE marks allow us to market and sell the relevant products in the United States and throughout the European Economic Area, respectively. While our ability to satisfy stringent safety requirements and quality control standards set by the USFDA and the European Union serves to demonstrate that we are sufficiently competitive with major multinational producers in terms of quality, our lower production cost base enables us to maintain a clear pricing advantage over our multinational competitors. Our appointment by a US-based leading global medical device manufacturer to produce OEM speciality surgical instruments is a testimony to our ability to produce quality products at competitive pricing.

We are headquartered in Changzhou, Jiangsu Province. We sell our products to distributors and in some cases through logistic companies and provide after-sale services to distributors and their hospital customers. Since our inception, we have grown our customer base and distribution network to over 390 distributors covering 30 provinces, autonomous regions and municipalities in China. As at 31 December 2009, we were an approved orthopaedic product supplier of over 2,500 hospitals in China.

We believe the quality and reliability of our products have enabled us to achieve strong brand recognition in the PRC. In 2007, our Trauson trademark  was recognised as a “China Well-known Trademark” (中國馳名商標), making us the only company in the PRC orthopaedic industry to have attained such status according to China Orthopaedics.

We recorded revenue of RMB131.6 million, RMB173.7 million and RMB211.5 million for the years ended 31 December 2007, 2008 and 2009, respectively, representing a CAGR of 26.8%. Our profit before tax was RMB54.1 million, RMB74.8 million and RMB94.0 million in 2007, 2008 and 2009, respectively, representing a CAGR of approximately 31.8% and our profit attributable to owners of our Company was RMB55.7 million, RMB64.8 million and RMB82.2 million in 2007, 2008 and 2009, respectively, representing a CAGR of 21.4%.

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OUR COMPETITIVE STRENGTHS

Our Directors believe that we benefit from, among other things, the following competitive strengths:

We are well positioned to benefit from the recent healthcare reform in China and the growth of China's orthopaedic market.

With our leading market position, we believe we are well positioned to capture the growth opportunities presented by the recently announced healthcare reform, the continued development of the healthcare market and the rapidly expanding economy in China. In particular, we believe, as the largest domestic trauma producer in China with an extensive distribution network, we are well positioned to benefit from the government reform policies that place emphasis on primary and essential care, since trauma injuries require immediate and localised medical response that qualifies as the type of primary or essential care provided by provincial, regional or local medical facilities favoured by the reform. Further, we believe that as wealth and demand for quality healthcare spread to inner China with the expansion of the PRC economy and support of government healthcare policies, our extensive distribution network will help us penetrate and capture the growth opportunities in these markets.

We are the largest trauma producer and one of the top three leading spine producers in China.

According to a market research conducted by China Orthopaedics, we were the largest producer of trauma products among the PRC orthopaedic product manufacturers in 2009 in terms of market share. Further, according to the same research we were one of the top three leading PRC producers of spine products in 2009 in terms of market share. We are well established in the PRC orthopaedic industry. Our products enjoy a strong brand recognition. Our Trauson trademark  has been recognised as a “China Well-known Trademark” (中國馳名商標) pursuant to a judgement of the Intermediate People's Court of Yan'an City in Shaanxi Province ((2007) 延中民初字第00031號) issued in 2007, making us the only company in the PRC orthopaedic industry to have attained such status according to China Orthopaedics. Our Directors believe that our leading position and strong brand recognition in the China's orthopaedic market will help us win further market share as we further expand our sales network.

We have established an extensive distribution and sales network and a large base of hospital customers which spread across 30 provinces, autonomous regions and municipalities in China and cover 29 countries and territories internationally.

In order to maximise the reach of our products to hospitals across different regions in China in a cost-efficient manner, we sell our products in China to licensed medical device distributors who can offer well established logistic infrastructure and channels for the onward sale of our products to hospitals. Use of distributors helps reduce our capital requirement and associated risks, offload work to service the hospitals and improve our accounts receivable collection cycle. We have established a stable and extensive distribution and sales network with a strategic coverage across China. Our distribution and sales network in China consists of more than 390 distributors covering hospitals in 30 provinces, autonomous regions and municipalities. While we sell our products to distributors and certain logistic companies in China, we typically retain control over, and participate in, the procurement bidding process conducted by or on behalf of hospitals. As at 31 December 2009, we were on the list of approved orthopaedic product suppliers of over 2,500 hospitals in

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China. We have also successfully developed an international sales and distribution network which, as at 31 December 2009, consisted of 47 overseas distributors and trading companies exporting our products to 29 countries and territories, including Russia, Turkey, the Czech Republic, Georgia, Egypt, Mongolia and other countries in the Middle East and South America.

We have generally maintained good working relationships with our distributors. A number of our largest distributors have been working with us for over five years. Our Directors believe that our strong brand recognition, our large base of hospital customers and our dedicated after-sale services have contributed to, and will continue to contribute to, our ability to attract and maintain long term relationships with our distributors.

We are able to deliver high quality products and services in a cost-efficient manner.

We are competitive in terms of the quality of our products in China and our targeted overseas markets. We have obtained a total of 87 product registration certificates from the PRC state or local food and drugs administration. We have obtained CE marks in the European Economic Area for an approved range of our products and USFDA 510(k) clearances for four types of Trauson Jiangsu's products, enabling us to sell these products in the European Economic Area and the US, respectively. We have also distinguished ourselves in the quality of our services. As part of our overall orthopaedic solution offering, we provide surgeons and distributors with after-sale services from regular product training to customer support, staffed by our personnel or representatives from our distributors. We ensure quality of our products and services while striving to maintain an efficient cost structure through the use of production methods and equipment which we believe are advanced, experienced and well-trained work force, and, compared to our multinational competitors, our lower material, labour and overhead costs. We believe the combination of high quality and efficient cost structure will provide us a pricing advantage and competitive edge as we compete for additional market share in the PRC domestic and the overseas markets.

We have an extensive product portfolio and a number of product candidates in the pipeline.

We manufacture an extensive portfolio of orthopaedic products. As at 31 December 2009, we had 87 marketed products which comprised of a comprehensive range of 22 trauma products, six spine products and 59 other products registered with the applicable food and drug administration in the PRC. In addition, in May 2010 we entered into a distribution arrangement to distribute third-party produced spine products and surgical instruments for on-sale by our authorised distributors in the PRC. We currently have 11 products, including ten spine and one joint products, in the pipeline at various stages of development. We expect to launch one spine product in 2010. These products are expected to generate increased revenue for us when launched. Compared with most of the orthopaedic product manufacturers in China that offer only a limited range of products, we are among the few manufacturers that offer a wide range of orthopaedic products. Our extensive product portfolio allows our distributors and hospital customers to procure products and related services and training from a single source, which saves them time and effort, and reduces the need for distributors and surgeons to retrain for and familiarise themselves with different products and business practices from different manufacturers. Our Directors believe that these benefits associated with our extensive product portfolio help increase the distributors' and surgeons' satisfaction with and loyalty to our products and will help us further consolidate our market position.

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OUR STRATEGY

We aim to become the dominant player in the orthopaedic industry in China. To achieve our goal, we plan to implement the following strategies:

Further broaden our distribution and sales network and hospital customer base.

Historically, we have focused on the more affluent and densely populated market in the Eastern region of the PRC. We believe there are substantial growth opportunities for us in inner China, particularly due to its rapidly growing healthcare market. Accordingly, we intend to further broaden our distribution and sales network, in particular in high-growth regions in inner China, to capture such growth opportunities. Given the strong brand recognition that our products enjoy, our Directors are confident that we will be able to further develop and reinforce our penetration into these markets in China.

As we expand our distribution network, we will also endeavour to increase the number of hospital customers for our products. Generally speaking, our distributors may only sell our products to hospitals which have endorsed us as their approved supplier following a formal bidding process. To successfully expand the geographic coverage of our business, it is vital that we broaden the network of hospital customers that put us on their approved supplier list. To this end, we intend to enhance our sales and marketing team's effort by hiring additional staff. We will increase our focus on managing key customer relationships and enlarge our sales team's presence in various strategic sales locations. This will enable us to increase the frequency of visits to hospitals and surgeons to promote our products, with the aim to increase the awareness of our brands as well as to recruit more hospital customers.

Further exploit our existing distributor and sales network and hospital customer base.

We intend to further exploit our relationships with our distributors and hospital customers to capture sales opportunities and enhance efficiency. In particular, we are developing our logistic network pilot scheme, which we believe offers a cost-efficient means for our distributors to gain swift access to inventory, and intend to extend the scheme to cover more distributors to improve our distribution efficiency and increase sales and customer satisfaction. We are exploring a number of alternative means to achieve this and it is possible that we may partner with logistic specialists to establish and operate such logistic network. Please refer to the paragraph headed "Sales and distribution" in this section of the prospectus for further information on our logistic network. An effective logistic network will enable individual distributors, particularly those with smaller operations, to maintain lower levels of inventory while effectively servicing hospital customers. We believe this feature reduces the working capital burden on distributors and will attract new distributors and help increase their satisfaction with, and loyalty to, our products.

In addition to increasing our sales and marketing team's effort to increase the frequency of visits to hospitals and surgeons, we plan to introduce a customer care programme to formalise the way we deliver services to our distributors and hospital customers in order to maximise the benefits offered by our extensive distribution and hospital networks. We will identify a list of key customers, surgeons and key opinion leaders in the orthopaedic field and proactively organise meetings with them to obtain feedback on our products. We also plan to establish and invite orthopaedic surgeons and other practitioners to join an academic round table discussion group aiming to improve the overall standard of care especially in the less well-off geographical areas in China. We believe this

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will ultimately help improve the general outcome of the use of our products. Further, we believe these measures will increase our exposure to surgeons and hospitals, help us improve our product quality, tap into market demand, further strengthen our Trauson and Orthmed brand names, and reinforce our position as a leader in the orthopaedic industry in China.

Acquire or form cooperative alliances with orthopaedic manufacturers to further expand our geographical coverage and increase our product offering and market penetration.

While we expect our growth will mainly be driven by organic expansion, we also plan to strategically implement mergers and acquisitions and form cooperative alliances with businesses that complement our business, product line, customer base and geographic coverage.

With respect to future domestic acquisitions, the PRC orthopaedic industry includes a number of small regional manufacturers and we believe a number of them produce a limited range of good quality orthopaedic products but lack the necessary resources to develop a broader product range or to cover a wider national market. We believe acquisition of suitable manufacturers is a cost-efficient means of accomplishing our growth strategy of further penetrating the domestic market in China and increasing our geographic coverage within a short period of time.

As a longer term strategy, we believe acquisitions of suitable orthopaedic product companies in selected emerging or developed markets will help us to quickly gain market share in these markets. It is our general growth strategy to further develop the international market. Concurrent with our plan to continue widening our international distribution and sales network and increasing our OEM customer base, we intend to identify and acquire suitable orthopaedic product companies which already have an established operation and brand in certain emerging or developed markets, such as small to medium-sized operations in Europe with high-end products. We believe acquisitions of suitable orthopaedic candidates will complement our international market position and help expedite our expansion in the international market. Such acquisitions may also present us opportunities to introduce new high-end products to China. As we develop new product offerings and markets, we intend to establish dedicated specialist sales teams to support the business. From time to time, we have discussions with a number of acquisition or alliance targets to explore possible ways of cooperation or alliances. However, as at the Latest Practicable Date, these discussions were still at a preliminary stage and no concrete agreement with any such potential acquisition or alliance targets was close to materialisation.

Capitalise on our high product quality and low production cost base to increase overseas sales.

We have been successful in penetrating several overseas markets and our products are exported to countries such as Russia, Turkey, the Czech Republic, Georgia, Egypt, Mongolia and other countries in the Middle East and South America through an international distribution and sales network. As mentioned in “Our competitive strengths” above, we believe we are sufficiently competitive in terms of our product quality in our targeted overseas market which is evidence by the CE marks and USFDA 510(k) clearances obtained by us. We believe we also maintain a manufacturing advantage in terms of lower labour and overhead costs compared to our multinational leading competitors. With the combination of our product quality and a lower production cost base, we intend to continue to increase the level of overseas sales and to expand our international market coverage to

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countries in Europe, South East Asia and the Americas. As part of our overall strategy to grow our sales team, a dedicated sub-team will be formed to focus on exploring additional sales channels. We also aim to improve our services to targeted overseas customers with closer follow up of sales orders and delivery cycle and the introduction of better forecast for overseas sales.

We have invested significant time and resources in cultivating and developing the relationship with our existing OEM customer and believe we have accumulated practical experience and expertise in manufacturing for OEM customers to expand our operations. When appropriate opportunities arise, we plan to replicate our success with our OEM manufacturing model and widen our OEM customer base. We are in discussion with a number of overseas customers to explore possible cooperative arrangements such as OEM, distributorship, research and development collaboration and other forms of alliance.

Strengthen our research and development capabilities.

To maintain our leading position in the orthopaedic industry, we intend to strengthen our research and development capabilities, in particular by recruiting more research personnel who specialise in biomechanics and increasing our collaboration with leading orthopaedic surgeons and university research centres in China, to develop new products and improve on our existing products. In the next three to five years, we expect to establish four research and development teams each consisting of four to five members to be led by an expert with biomechanics background to carry out research and development in orthopaedic materials and biomechanics. Further, we plan to collaborate with a number of universities which have a medicine faculty in the PRC and explore the possibility of setting up scholarships with them for their select research students. We believe such scheme will build up our brand name among medical students and will provide us with an advantage when recruiting medical graduates from these universities. Further, to facilitate our research and development activities, we are at our early stage in planning to set up an orthopaedic laboratory at one of our production facilities for the research and development and testing of our pipeline products.

We expect these increased research and development efforts will help us remain at the forefront of the industry and gain competitive advantages in future expansions. We also expect these efforts will also broaden our product portfolio, especially in the spine product area, and help us expand into new product areas, thereby increasing our growth prospects and enhancing our leading market position.

OUR PRODUCT PORTFOLIO

We manufacture a broad range of orthopaedic products that can be broadly classified into three categories — trauma products, spine products and others. Other products we produce include orthopaedic surgical instruments and other components such as orthopaedic cables and external fixators. We also produce OEM products for a leading global medical device manufacturer. The

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following is a breakdown of our revenue by product category and the percentage contribution by each category to our total revenue for the periods indicated:

	For the year ended 31 December					
	2007		2008		2009	
	RMB '000	%	RMB '000	%	RMB '000	%
Trauma products	86,821	66.0	111,827	64.4	135,417	64.0
Spine products	27,899	21.2	26,640	15.3	31,366	14.8
OEM products	11,575	8.8	27,949	16.1	31,418	14.9
Others	5,287	4.0	7,276	4.2	13,284	6.3
Total	<u>131,582</u>	<u>100.0</u>	<u>173,692</u>	<u>100.0</u>	<u>211,485</u>	<u>100.0</u>

All of our trauma and spine products are implanted products. Other than the OEM products, our orthopaedic products are sold under the following brands:



TRAUSON



In addition, in May 2010 we entered in a distribution arrangement to distribute third-party produced spine products and surgical instruments for on-sale by our authorised distributors in the PRC. For further details, please see the paragraph headed “Third-party products” below.

Trauma products

Trauma products are primarily used for the surgical treatment of bone fractures of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet due to accidents, pathological or other reasons. We produce over 20 trauma products including internal fixation devices such as cannulated and solid intramedullary nails, plates, screws, locking plates and screws. All of our trauma products are made of stainless steel, titanium or titanium alloy. The following table shows a summary of our trauma products range:

Bone screws and plates

Product	Features and application
Standard plates and screw	Stabilisation device for repositioned or reconstructed bone fragments.
PA plates and screw	Periarticular reconstruction of the upper and lower extremities.
Mini fragment	Reconstruction of small bones and usually in hands and feet.

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Product	Features and application
Cannulated screw	Cannulated screws are applicable to reconstruction of the upper and lower extremities.
Dynamic Hip Screw (DHS)	Fixation of a variety of proximal femoral fractures such as intertrochanteric fractures, subtrochanteric fractures, peritrochanteric fractures and basilar neck fractures.
Dynamic Condylar Screw (DCS)	Applicable to intercondylar fractures, supracondylar fractures and unicondylar fractures of distal femur.

The following diagram shows a sample of our bone plate and certain of our screws:



Intramedullary nails

Product	Features and application
Tibial nail	Used for tibial shaft fractures.
Femoral nail	Used for femoral shaft fractures.
Retrograde femoral nail	Used for femoral shaft and/or supracondylar fractures.
Retrograde humeral nail	Used for humeral shaft fractures.
Gamma-III type proximal femoral IM nail	Used for inter-trochanteric, sub-trochanteric and peritrochanteric fractures.

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Product	Features and application
Gamma locking nail system.	Applicable to unstable, comminuted, proximal fractures of the femur. It combines the features of an intramedullary nail and hip screw system. It supports the anatomic reduction and internal fixation of the femoral head and neck and provides anti-rotational stability for many difficult fracture situations.
Universal retrograde nail system . . .	Applicable to long bone shaft fractures suffered by children

The following diagram shows a sample of our intramedullary nails:



Locking compression screws and plates

Product	Features and application
Locking compression plate system. . .	They are suitable for reconstruction surgery for patients, especially for those people with osteoporosis.
Less invasive locking plate system. . .	Applied in cases of complicated long bone fractures in extremities, especially in cases such as high-energy injuries, osteopenic fractures and periprosthetic fractures. The less invasive locking plates include distal femur plates and proximal tibia plates with similar indications such as diaphyseal fractures, extra-articular fractures, intra-articular fractures and periprosthetic fractures.

The following diagram shows a sample of our locking compression screws and plate system:



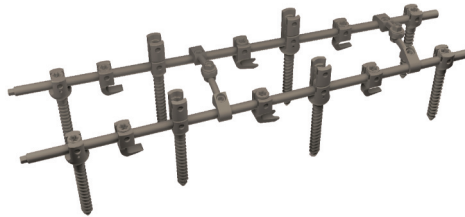
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Spine products

Spine products are used for the surgical treatment of spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons. Our spine products include pedicle screws, meshes, cages for spinal fusion, hooks, anterior and posterior cervical fixation system.

We have six systems of spine products, GSS I, GSS II, GSS III, GSS IV, GSS V and GSS VII.

The following diagram shows a sample of one of our spine systems:

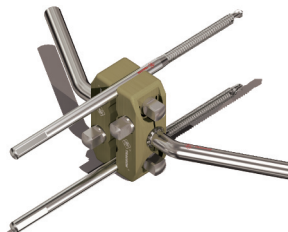


Other products

We also produce 59 other products including orthopaedic cables, external fixators and surgical instruments. The following table shows a summary of our other products range:

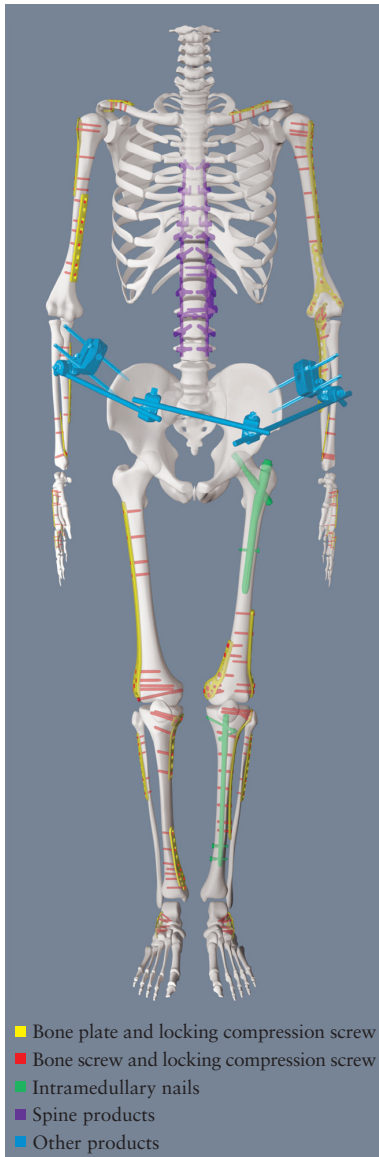
Product	Features and application
Orthopaedic cable	For fixing fractures mostly in a tension band fixation style. Can also be used to stabilise with other orthopaedic implants.
External fixator	Three-dimensional external fixator; available in a variety of modules for flexible combination. They are used for the treatment of trauma and bone disease with severe soft tissue injury or other polytrauma patients.
Surgical instrument	For use in orthopaedic operations and implant-related instruments.

The following shows a sample of our external fixators.



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The following diagrams illustrate how our products are applied to a human body:



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Our products have the following applications:

Trauma products

Bone screws and plates

Bone screws and plates are stabilisation devices for repositioned or reconstructed bone fragments of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet. Depending on the position and condition of the trauma, different bone plates are applied to the bone fragments. Screws are then applied to fix the plates onto the bones. Typically, bone screws and plates are surgically removed after eight to 12 months following the initial surgery.

Intramedullary nails

Intramedullary nails are applied as treatment for long bone fractures. Typically, intramedullary nails are inserted inside of long bones and are fixed by both proximal and distal locking screws. As with the bone screws and plates, the intramedullary nails are surgically removed typically after eight to 12 months following the initial surgery.

Locking compression screws and plates

Locking compression screws and plates provide the ability to create a fixed-angle construct while utilising conventional plating techniques. The fixed-angle construct provides improved fixation for osteopenic bones or multifragment fractures. Locking compression screws and plates systems are suitable for a number of fracture types, such as fractures, osteotomies, malunions and nonunions of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet.

Spine products

Our spine products, consisting mainly of the general spine systems, are applied to various parts of the spine. Combined with the use of pedicle screws, hooks, rods and other components, the general spine systems are applied for the surgical treatment of spinal disorders, deformity, fractures and back pain conditions caused by generative disc disease or other pathological reasons. Similar to the trauma products, the implanted products need to be removed through surgery.

Other products

Other products include orthopaedic cables, external fixators and surgical instruments. Our cables can be applied in a tension band fixation style for fixing fractures in ankle, elbow, hip, knee and shoulder. It can also be applied as supplementary cerclage fixation with plates and screws. Our external fixators provide a three-dimensional external fixation to fractures in humerus, tibia, femur, radius, hands and feet and pelvis and are applicable for a variety of treatments for trauma and deformity. Different from our other trauma products, external fixators are fixed outside the human body and therefore are not suitable for patients with freedom in activities and movement.

Third-party products

In May 2010, we entered into a distribution arrangement with a Taiwan-based orthopaedic products manufacturer to distribute in China certain spine products and surgical instruments that we believe complement our existing product lines. We currently intend to establish a trading company to on-sell these third party products through our network of authorised distributors in the PRC, as well as logistic companies. An application has been made to the relevant government authorities for

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the establishment of a trading company and further application will be made to the relevant food and drugs administration for all the relevant licences and certificates for the distribution of such products in the PRC. Given that it may take as long as three months to set up the trading company established and to obtain all the requisite licences and certificates, we intend to sell the third-party products through Orthmed Hong Kong directly to a licensed distributor in the PRC, who is an independent third party of our Group, for the interim period. Our Directors believe that such arrangement would enable us to test the market for such products and therefore would assist us in determining our future product portfolio.

PRODUCTION PROCESS

Production facilities

We currently have two production facilities owned and operated by Trauson Jiangsu and Orthmed Changzhou, respectively, occupying an aggregate site area of approximately 47,931 square metres with a total gross floor area of approximately 27,199 square metres. The production facility of Trauson Jiangsu is located at Niu Tang Town in Changzhou, with a total gross floor area of approximately 12,995 square metres and occupies a site area of approximately 7,364 square metres. The annual production capacity (after taking into account time required for regular maintenance) and the utilisation rate of this production facility for the years ended 31 December 2007, 2008 and 2009 were as follows:

Product	For the year ended 31 December					
	2007		2008		2009	
	Maximum annual capacity ⁽¹⁾	Utilisation rate	Maximum annual capacity ⁽¹⁾	Utilisation rate	Maximum annual capacity ⁽¹⁾	Utilisation rate
Plates	159,800 units	78%	205,500 units	84%	210,100 units	86%
Screws	1,128,100 units	76%	1,526,600 units	77%	1,603,400 units	77%
Intramedullary nails . .	43,700 units	64%	41,200 units	68%	33,100 units	68%
Cannulated screws . . .	41,400 units	87%	41,800 units	85%	44,600 units	93%
Pedicle screws	84,600 units	87%	87,400 units	93%	90,500 units	99%
Surgical instruments . .	2,400 sets	86%	2,600 sets	99%	2,200 sets	85%

Note:

- (1) Maximum annual capacity refers to the number of units/sets of our products which, we estimate, could be produced within the period defined. It includes the capacity of the then existing production facility and equipment within the period defined, irrespective of whether the production facility or equipment was actually operating or idle. For each product category, we based the related maximum annual capacity on the output capacity of the relevant bottleneck production process (i.e. the process in the product production line pursuant to which the least volume of work-in-progress could be processed in the defined period). The maximum annual capacity of the bottleneck process and, by extension, the maximum annual capacity for each product category generally is primarily driven by factors such as processing time, the required number of operators for the process, number of operator shifts during the defined period, machine workable hours and the then current efficiency.

We expect our sales to increase substantially in 2010, primarily through expected increase in sale of our products to existing distributors as they penetrate additional hospital customers in their sales territory, as well as continuous expansion of our distribution network. As illustrated by the table above, for the year ended 31 December 2009, the utilisation rates of Trauson Jiangsu's production

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capacity for certain products such as cannulated screws and pedical screws were close to full capacity. In order to ensure that our production keeps in line with our business expansion, we need to increase Trauson Jiangsu's production capacity. As Trauson Jiangsu's existing production facility has limited floor area to facilitate large scale expansion through the installation of new production equipment, we have plans in place to build new production facilities in two phases on a site with an area of approximately 59,181 square metres which is owned by us and located at No. 9 Longmen Road, Wujin Hi-Tech Zone in Jiangsu Province. The first phase of such production facilities with a total gross floor area of approximately 32,153 square metres is being constructed and scheduled to be completed by December 2010. We started preparing the site for construction in April 2009 and the construction of the new production facilities commenced in July 2009. As at the Latest Practicable Date, the construction of the building has been completed and we have now proceeded to finish the interior of the building including installing electricity, water and other systems. The estimated total land and construction costs of phase one of Trauson Jiangsu's production facilities are RMB70.3 million of which RMB14.9 million is land cost and which had been paid in full in 2009. As at 30 April 2010, we had paid a total construction costs of approximately RMB38.9 million. All these costs were and will be financed using our internal resources. Since we do not currently have any concrete schedule for the construction of the second phase of these production facilities, we have not made any budget for the second phase of these production facilities.

In order to centralise production and maintain close management proximity to our production lines, we intend to relocate the production facility as well as the headquarters of Trauson Jiangsu to this new complex in stages once the facility is ready to move in. On the basis that the two production facilities are located in close proximity, that the relocation will be implemented in stages and the relocation schedule may be easily adjusted according to the production plan and orders existing at the relevant time, our Directors do not expect that the relocation process will cause any material interruption to the production or continuing operation of Trauson Jiangsu. We plan to acquire new equipment for production of trauma, spine and joint products to enhance our overall production capacity and to upgrade our obsolete production equipment over the course of the next five years starting 2010.

We estimate that the annual production capacity of the first phase of the new production facilities when fully equipped according to our current plan by the end of 2011 is as follows:

Product	Maximum annual capacity⁽¹⁾
Plates	375,000 units
Screws	2,820,000 units
Intramedullary nails	57,000 units
Cannulated screws	67,000 units
Pedicle screws	155,000 units
Surgical instruments	3,300 sets

Note:

(1) Maximum annual capacity refers to the number of units/sets of our products which, it is estimated, could be produced within the period defined. It includes the projected capacity of the planned production facility and equipment within the period defined, irrespective of whether the production facility or equipment was actually operating or idle. These

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estimated maximum annual capacity does not allow regular maintenance time. For each product category, we based the related maximum annual capacity on the output capacity of the relevant bottleneck production process (i.e. the process in the product production line pursuant to which the least volume of work-in-progress could be processed in the defined period). The maximum annual capacity of the bottleneck process and, by extension, the maximum annual capacity for each product category generally is primarily driven by factors such as processing time, the required number of operators for the process, number of operator shifts during the defined period, machine workable hours and the then current efficiency.

We expect the increased production capacity would enable our Group to meet anticipated business expansion which the management expects based on our growth experienced during the Track Record Period. We recorded revenue of RMB131.6 million, RMB173.7 million and RMB211.5 million for the years ended 31 December 2007, 2008 and 2009, respectively, representing a CAGR of 26.8%. As we mentioned in the section headed “Business — Our strategy,” we intend to further broaden our distribution network and hospital customer base to cover inner China areas and to further exploit our relationship with the distributors and hospital customers to capture sales opportunities. We also intend to expand our international market coverage to countries in Europe, South East Asia and the Americas. Further, the production of certain of Trauson Jiangsu’s products such as cannulated screws and pedical screws was operated close to their respective full production capacity in 2009 and Trauson Jiangsu’s existing production facility has limited floor space to accommodate any meaningful expansion. Therefore, to cater for our growing business, Trauson Jiangsu needed a larger production plant. Construction of a new production plant is a major capital expenditure commitment for our Group and it is a decision that the Directors believe should cater for our Group’s long term growth. It would not be efficient and economically sensible if we see our new plant to be running in full production capacity within a short period of time and we are required to re-locate the plant again. Accordingly, we had decided to construct a production plant which would allow further production capacity for expansion in the future if needed. The Directors believe that the expanded production capacity is in line with our Group’s overall expansion plan.

We do not currently have any concrete schedule for the construction of the second phase of these production facilities; the schedule will depend on the progress of our business expansion.

The production facility of Orthmed Changzhou is located at Qinling Road, Xinbei District, Changzhou, with a total gross floor area of approximately 14,204 square metres on a piece of land of approximately 40,567 square metres. Orthmed Changzhou is about 15 kilometres away from the existing production plant of Trauson Jiangsu. In accordance with our arrangement with our OEM customer, we have assigned a designated area in our production facility at Orthmed Changzhou within which only products for our OEM customer are produced, and equipment provided by our OEM customer is kept for the exclusive use for its orders. The annual production capacity (after taking into account time required for regular maintenance) and the utilisation rate in respect of the equipment provided by our OEM customer for the years ended 31 December 2007, 2008 and 2009 were as follows:

Product	For the year ended 31 December					
	2007		2008		2009	
	Maximum annual capacity ⁽¹⁾	Utilisation rate	Maximum annual capacity ⁽¹⁾	Utilisation rate	Maximum annual capacity ⁽¹⁾	Utilisation rate
Instruments	87,360 units	49%	122,304 units	75%	239,616 units	64%

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Note:

- (1) Maximum annual capacity refers to the number of units/sets of our products which, we estimate, could be produced within the period defined. It includes the capacity of the then existing production facility and equipment within the period defined, irrespective of whether the production facility or equipment was actually operating or idle. We based the related maximum annual capacity on the output capacity of the relevant bottleneck production process (i.e. the process in the product production line pursuant to which the least volume of work-in-progress could be processed in the defined period). The maximum annual capacity of the bottleneck process and, by extension, the maximum annual capacity is primarily driven by factors such as processing time, the required number of operators for the process, number of operator shifts during the defined period, machine workable hours and the then current efficiency.

Excluding such equipment provided by our OEM customer kept for the exclusive use for its orders and the equipment reserved for new product testing, the annual production capacity (after taking into account time required for regular maintenance) and the utilisation rate of Orthmed Changzhou's production facility for the years ended 31 December 2007, 2008 and 2009 were as follows:

Product	For the year ended 31 December					
	2007		2008		2009	
	Maximum annual capacity ⁽¹⁾	Utilisation rate	Maximum annual capacity ⁽¹⁾	Utilisation rate	Maximum annual capacity ⁽¹⁾	Utilisation rate
Plates	34,400 units	93%	66,900 units	83%	60,200 units	87%
Screws	273,800 units	65%	383,300 units	68%	492,900 units	77%
Surgical instruments . .	266 sets	85%	532 sets	90%	1,258 sets	65%

Note:

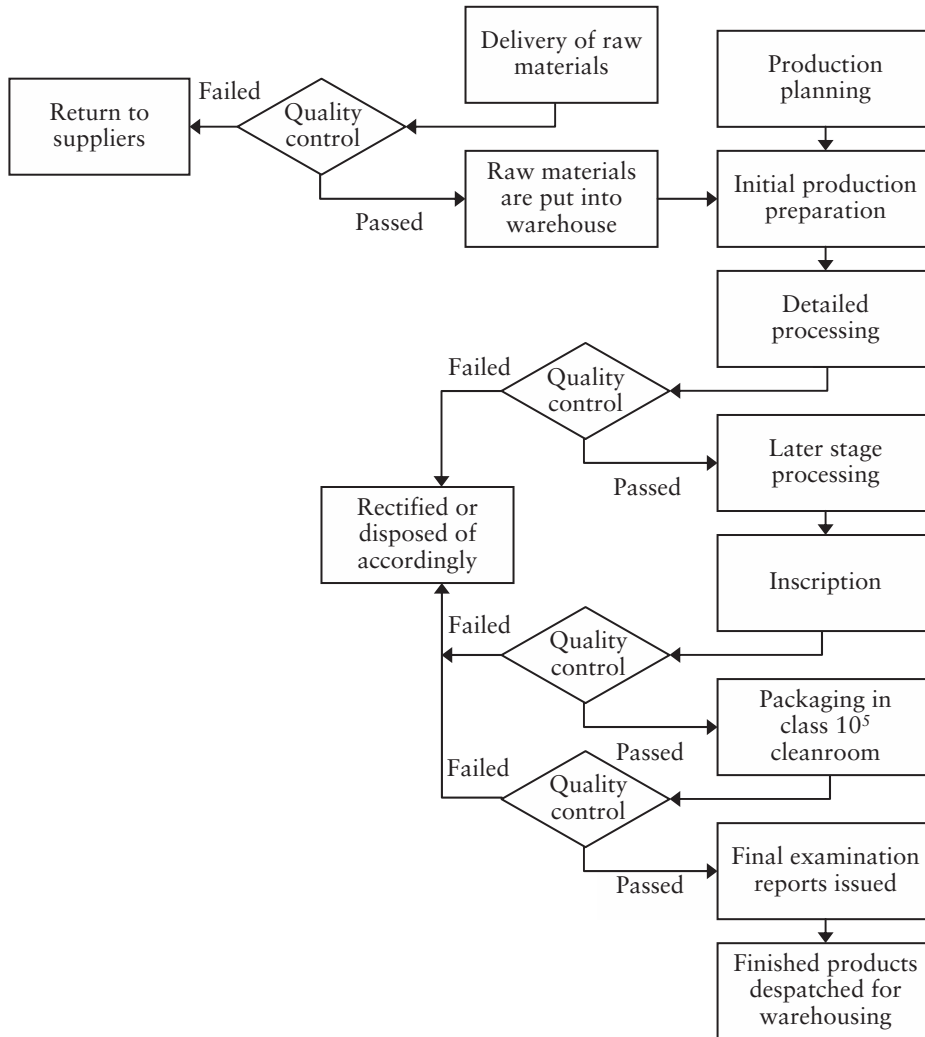
- (1) Maximum annual capacity refers to the number of units/sets of our products which, we estimate, could be produced within the period defined. It includes the capacity of the then existing production facility and equipment within the period defined, irrespective of whether the production facility or equipment was actually operating or idle. For each product category, we based the related maximum annual capacity on the output capacity of the relevant bottleneck production process (i.e. the process in the product production line pursuant to which the least volume of work-in-progress could be processed in the defined period). The maximum annual capacity of the bottleneck process and, by extension, the maximum annual capacity for each product category generally is primarily driven by factors such as processing time, the required number of operators for the process, number of operator shifts during the defined period, machine workable hours and the then current efficiency.

Upon relocation of our current production facility of Trauson Jiangsu to our new complex, our production facilities will have a combined site area of approximately 99,748 square metres in aggregate with a total gross floor area of approximately 46,357 square metres. At present, we do not have any definitive plan for the disposal of or otherwise dealing with the existing production facility of Trauson Jiangsu following completion of the relocation.

We have obtained all necessary approvals and permits for our production facilities. These approvals and permits include a production permit from the respective food and drug administration and a business licence. We adhere to and closely monitor very stringent quality assurance and safety control processes in the manufacturing of our products.

Flowchart of production process

We produce a variety of orthopaedic products. Different products adopt slightly different production processes. The following flowchart illustrates the typical production process for the majority of our products:



Production planning. Based on sales forecasts, our planning department formulates a detailed annual production plan each year. During the year, the production plan is then reviewed and revised monthly based on actual sales orders and adjusted forecast. Once a production plan is confirmed or revised, it is circulated to the relevant divisions of the production line together with request lists for the required raw materials.

Delivery of raw materials. Meanwhile, raw materials primarily consisting of stainless steel, titanium and titanium alloy purchased from our suppliers are delivered to our production facilities. Upon delivery, raw materials are subject to quality control inspection. Substandard units are returned to the suppliers.

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Initial production preparation. Based on the request lists, metal plates or rods are cut into smaller sizes according to various product specifications and despatched to the production line. While the raw materials are being prepared, staff at the production line put together a production design, inspect and prepare the assembly line.

Detailed processing. In order to maintain product consistency and performance stability, we have adopted high-precision fully-automated and semi-automated machinery, such as four axles and five axles linked processing systems, fully-automated mill and sharpening tool and mechanic turning systems, for our processing. Quality control is carried out at each stage of the production process by our specialist quality control team using high-precision gauges to verify whether work-in-progress strictly conforms with the product specification. Non-conforming work-in-progress will be returned for rectification or disposed of as scrap, as appropriate.

Later stage processing. Depending on the nature of the materials and the purpose of the products, we have employed one of various later stage processing methods. Each type of processing method is determined by undergoing long-term and stringent trial verification and various biological assessment, so as to enhance the wear-resisting and corrosion-resisting ability, as well as the application property, of the products.

Inscription. Our logo and other information is then inscribed on the semi-finished products, following which the products are subject to further examination by our quality control team.

Cleaning and packaging. Finished products are delivered to our class 10⁵ cleanroom for cleaning. Cleaned products are pre-packed and wrapped for shipment to avoid damage during freight.

Final examination report issued. After passing the final quality control inspection, finished products are labelled to include information such as product name, model number, specification, medical device registration certification number, technical standard number and our address. A final quality control examination report is issued for each batch of finished products.

Finished products despatched for warehousing. Finished products are warehoused pending delivery to customers.

Raw materials

The principal raw materials used for our orthopaedic products include stainless steel, titanium and titanium alloy. We source our raw materials from suppliers within the PRC as well as from other places such as Taiwan, the United States and Germany. We maintain approximately 60 to 90 days of raw materials in inventory for our production. In addition, to avoid heavy reliance on any single source of supplies for our raw materials, we usually place our purchases with several suppliers, although we tend to keep our suppliers to a reasonable number to maintain our bargaining power. We have not entered into long-term supply contracts with our suppliers and have not experienced any supply shortages during the Track Record Period. We do not anticipate any difficulties procuring raw materials necessary for our production. The credit period with our suppliers varies and ranges

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from 90 days to nil (payment upon delivery). In some cases, we are given the right to retain a pre-determined sum or percentage of the purchase price per contract or order as a quality assurance bond, which is to be released only after a period of time if there are no quality issues in respect of the purchase.

For the years ended 31 December 2007, 2008 and 2009, purchases from our five largest suppliers accounted for approximately 52.3%, 53.6% and 50.0% of our total purchases, respectively, for the respective years. For the years ended 31 December 2007, 2008 and 2009, our purchases from our single largest supplier accounted for approximately 24.1%, 24.7% and 17.8% of our total purchases, respectively. Each of Biorth Inc and Metro Enterprises Corp is one of our Group's five largest suppliers during the Track Record Period. For the years ended 31 December 2007, 2008 and 2009, our purchases from Biorth Inc were RMB1.5 million, RMB3.4 million and RMB0.5 million, respectively; and our purchases from Metro Enterprises Corp were nil, RMB1.2 million and RMB5.9 million, respectively. The purchases we had with these companies were primarily purchase of stainless steel as our raw materials. Biorth Inc is a company wholly owned by Mr Qian Song and Metro Enterprises Corp is a company wholly owned by Mr Qian Xiao Jin. Mr Qian Song and Mr Qian Xiao Jin are both sons of Ms Xu and our chairman. Accordingly Biorth Inc and Metro Enterprises Corp will be our connected persons following the Listing. Our Group has ceased to purchase raw materials from Biorth Inc and Metro Enterprises Corp since the end of 2009 and have found replacement suppliers to source raw materials. If we make any purchases from any of Biorth Inc and Metro Enterprises Corp following the Listing, we will only do so in compliance with the applicable requirements under the Listing Rules in relation to connected transactions.

Save as disclosed in the above paragraph, none of our Directors and their respective associates or any of our shareholders which, to the knowledge of our Directors, owns more than 5% of our share capital as of the Latest Practicable Date, has any interest in any of our five largest suppliers.

Quality assurance

We regard our stringent quality assurance processes as a key attribute to our success and have established quality assurance systems in accordance with the relevant PRC laws and regulations. We obtained ISO9001 and ISO13485 certification for quality management systems in manufacturing our orthopaedic products, which indicate our compliance with internationally recognised standards for quality control. Since 2005, we have also obtained CE marks issued by TÜV SÜD Product Service GmbH in Germany, which are only granted to applicants who have satisfied, among other factors, the applicable quality control standards laid down in the European Directives.

In 2007, both Trauson Jiangsu and Orthmed Changzhou were selected to be among the first group of medical device manufacturers to participate in the Good Manufacturing Practice pilot scheme organised by the SFDA pursuant to the "Notice Regarding Commencement of the Pilot Scheme for Adopting Good Manufacturing Practices by Enterprises Engaging in the Manufacture of Sterilised and Implanted Medical Devices" (《關於開展無菌和植入性醫療器械生產企業的質量管理體系規範試點工作的通知》). The Good Manufacturing Practice provides guidelines and regulations for certain medical device manufacturers in relation to the quality assurance standards and ensures applicable medical devices are consistently produced and controlled to the quality and standards appropriate for their intended uses. Trauson Jiangsu and Orthmed Changzhou's quality assurance standards have

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been certified in the pilot scheme to have met the Good Manufacturing Practice standards. Our stringent control measures also enabled us to obtain USFDA 510(k) clearances for our products to be marketed and sold in the United States. The appointment of Orthmed Changzhou since 2007 by a US-based leading global medical device manufacturer, which is subject to the US legal requirements for product safety applicable to medical devices which tend to be more stringent than those currently prevailing in China, to manufacture OEM speciality surgical instruments on their behalf serves as a further testimony to the quality and reliability of our products. We are the first OEM supplier appointed by such company in the PRC.

Our quality assurance measures cover all aspects of our operations, including design and construction of production plant and facilities, the installation and maintenance of equipment, procurement of raw materials and packaging materials, quality checks of raw materials, work-in-progress and finished products, monitoring adverse events of our products and verification of documentation to comply with product registration certification standards and requirements. As illustrated in the paragraph headed “Flowchart of production process” in this section, we implement quality assurance measures throughout our production process. We have 85 employees in our quality assurance department. Staff at our quality assurance department are required to become familiar with the relevant PRC national standards, applicable ISO standards, industry standards and the legal and regulatory requirements applicable to our orthopaedic products. They are also required to receive professional training before performing certain quality assurance tasks. In every production process, dedicated quality inspectors are assigned to inspect each process according to pre-determined standards and inspection conditions and to record inspection results.

As part of our stringent quality assurance procedures, we have put in place a tracking system which allows us to track details of the origin and production process of each of our finished products. A record of each product is maintained containing information related to a specific product such as the raw materials used, their source, date of production, production steps, names of employees and quality inspectors responsible for each key production step, date of sale and delivery and name of the distributor sold to. This system is part of our larger quality assurance programme and in particular assists us in monitoring and reporting adverse events of medical devices relating to our products.

Save for the several claims disclosed in the paragraph headed “Legal proceedings” in this section, we have not experienced any material safety problems of our products reported by our customers or relevant government authorities or any material product liability or legal claims due to the quality of our orthopaedic products and have not been subject to any material adverse findings in any investigation or audit by any government authority during the Track Record Period.

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SALES AND DISTRIBUTION

Save for our sales to our OEM customer, all our sales are made to distributors including logistic companies for our domestic market in China and to distributors for our international market which are primarily overseas distributors and several trading companies in China exporting our products. The following is a breakdown of our revenue by channels of distribution and the percentage contribution by each channel to our total revenue for the periods indicated:

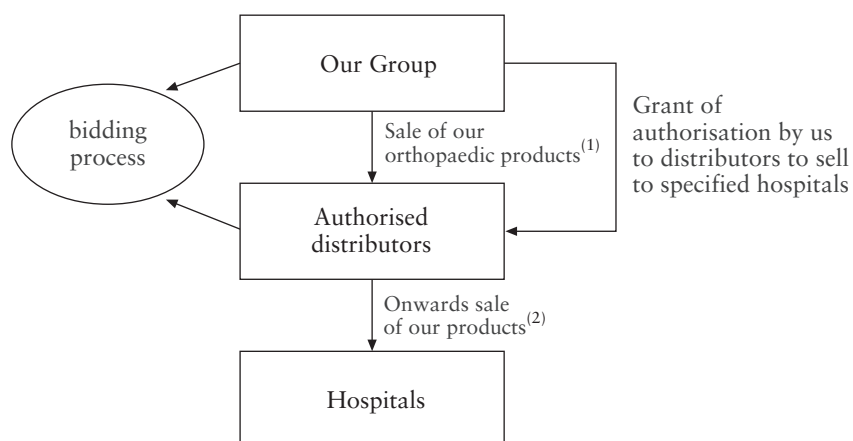
	For the year ended 31 December					
	2007		2008		2009	
	RMB '000	%	RMB '000	%	RMB '000	%
Domestic Market						
Distributors	101,491	77.1	121,424	69.9	145,736	68.9
Logistic companies	6,927	5.3	12,918	7.4	22,356	10.6
International Market						
Overseas distributors	4,828	3.7	6,996	4.0	8,679	4.1
Trading companies	6,761	5.1	4,405	2.6	3,296	1.5
OEM customer	11,575	8.8	27,949	16.1	31,418	14.9
Total	<u>131,582</u>	<u>100.0</u>	<u>173,692</u>	<u>100.0</u>	<u>211,485</u>	<u>100.0</u>

Domestic market

A substantial portion of our products are sold in the PRC domestic market. For the years ended 31 December 2007, 2008 and 2009, domestic sales represented 82.4%, 77.3% and 79.5% of our total revenue for the respective years.

Sales model

The following chart illustrates the current distribution and sales model of our products in China:



Notes:

- (1) We also sell our products to a number of logistic companies which then on-sell our products to our other authorised distributors.
- (2) The onwards sale of our products by our distributors to hospitals are not carried out by our Group.

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All of our sales in the PRC domestic market are made to distributors, and to a number of logistic companies which sell our products to our other distributors. Our distributors then on-sell our products to hospitals. In general, hospitals will only purchase products which have been approved and adopted through procurement bidding processes. As part of our sale service to our customers, we usually participate in the procurement bidding process conducted by government bureaux for hospitals. In some cases we authorise our distributors to bid on our behalf. Consistent with the industry norm for the sale of orthopaedic products in China, we do not sell our products directly to hospitals. Hospitals will buy our products from our authorised distributors. To optimise the benefits expected from our distribution network, each hospital customer generally is serviced by one authorised distributor, although each distributor may be authorised to sell to more than one hospital.

In order to be able to better service the hospitals, our distributors would need to maintain a certain level of inventories including products of a variety of different specifications. We have not put in place any specific systems to monitor the inventory level maintained by our distributors, as we believe maintaining an appropriate and adequate level of inventory so that our distributors can meet the demands from hospitals from time to time is in their self interest as well as that of our Group. As such we do not consider adopting an active approach in monitoring the inventory level of our distributors would be necessary or economically efficient taking in account the costs that may be involved in implementing, and the human resources required to operate, such a monitoring system.

Typically our distributors will make purchase orders of products in accordance with their sales to the hospitals and their own inventory mix. As at the Latest Practicable Date, we have not noticed any abnormal purchase orders made by our distributors, nor is there anything which should lead to our suspicion in this respect. On the above basis and further on the basis that our distributors are independent from our Group and it would be against general profit making practice to accumulate inventory year after year without on-selling to hospital customers, our Directors are of the view that the increase in our sales during the Track Record Period was not the result of artificial build-up of inventory at distributors and logistic companies.

Our distribution network in China

Our distribution and sales network in China consists of more than 390 distributors (including a number of logistic companies) covering over 2,500 hospitals in 30 provinces, autonomous regions and municipalities.

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The following table sets out the movements in number of our distributors and logistic companies in China during the Track Record Period:

	For the year ended 31 December		
	2007	2008	2009
At beginning of the year	234	277	349
Add: New appointments	67	95	64
Less: Non-renewal of appointments following expiration of contract term ⁽¹⁾	<u>(24)</u>	<u>(23)</u>	<u>(22)</u>
At end of the year	277	349	391

Note:

- (1) Non-renewal of appointments of the distributors following expiration of the contract term is primarily due to: (i) distributor's cessation of business, or (ii) the distributor's poor performance during the term of the distribution agreement, including its failure to achieving the agreed sales target.



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Our distribution network can be broadly divided into four regions as illustrated on the map above. The following table sets out the geographic distribution of our distributors in China during the Track Record Period:

	As at 31 December		
	2007	2008	2009
Eastern ⁽¹⁾	128	159	163 ⁽⁵⁾
Western ⁽²⁾	35	49	60
Northern and north-eastern ⁽³⁾	60	78	95
Central and southern ⁽⁴⁾	54	63	73
Total	277	349	391

Notes:

- (1) Eastern region includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
- (2) Western region includes Sichuan, Chongqing, Yunnan, Guizhou, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.
- (3) Northern and north-eastern regions include Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
- (4) Central and southern regions include Henan, Hubei, Hunan, Guangxi, Guangdong and Hainan.
- (5) There was one distributor who sold our products to hospital customers in both the Eastern region and the Western region during the year ended 31 December 2009. Such distributor has only been counted as a distributor in the Eastern region.
- (6) During the Track Record Period, we only sold to two logistic companies.

As indicated in the tables above, the number of our distributors increased by 26% in 2008 and 12% in 2009.

In 2009, our sales in the eastern part of China (including Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian) represented more than 40% of our total revenue. While we established a strong foothold in the eastern region, we have begun to expand our geographic coverage to include other regions of the country by adding new distributors in our target regions such as the north-eastern and southern regions. In the years ended 31 December 2008 and 2009, we added 41 and 38 distributors in regions outside the eastern region, respectively. We believe we have established a relatively stable domestic distributor network. A number of our largest distributors have been working with us for over five years. During the Track Record Period, we did not experience any material dispute with any of our distributors or logistic companies and we are not aware of any non-adherence to our policies by our distributors or logistic companies during the same period. We have added over 20 distributors to our network in 2010.

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Selection of distributors

We typically select distributors based on factors such as their sales experience, knowledge of medical devices, contacts in the medical community, reputation and market coverage. All our distributors are independent third parties. Our distributors are typically distributors of healthcare products including pharmaceutical drugs and medical devices, although some of our distributors focus on distributing orthopaedic products. Distributors selling our products must hold a valid distribution licence. To ensure that our distributors hold a valid distribution licence, we have put in place a system to monitor the distribution licences of our distributors. Each of our distributors is required to provide us with its current distribution licence for our record. Further, details of the distributors' distribution licences, including the name of the distributor, the date of issue of the distribution licence and the validity period of the distribution licence, are entered into and maintained in a computerised system, which, among other things, will automatically generate a reminder when a distributor's distribution licence is approaching its expiry date based on which we will follow up with our distributor to obtain a new distribution licence. We actively manage our distribution networks, regularly review distributors' performance and terminate underperforming distributors to maximise our penetration of target markets and our sales opportunities.

Salient terms of our distribution agreements

All of our distributors enter into our standard form of distribution agreement with us. The following is a summary of the salient terms of our standard distribution agreement:

Term. Our standard distribution agreement runs for a term of one year, and may be renewed by mutual agreement between the distributor and us.

Exclusive sales territory. We usually enter into agreements with our distributors on an exclusive basis. We manage our network to maximise our penetration of target markets and sales opportunities by defining a territory within which any one distributor may sell our products. The distributors are not allowed to sell our products outside the territory defined. Since hospitals will require a distributor to produce a letter issued by us authorising such distributor to sell our products to the hospital specified in the letter, we enforce sales territory exclusivity by controlling the issue of such authorisation letters. To maximise the contribution each distributor may bring to our Group, it is our policy not to appoint more than one distributor for the same range of products for sale to the same hospital. Further, the distributors covenant not to sell substitute products offered by other manufacturers.

Sales targets and incentives. Our distribution agreements typically specify an annual sales target. Failure on the part of any distributor to achieve its sales target would give us the contractual right to appoint new distributors in such distributor's exclusive sales territory. For distributors who meet or exceed the agreed sales targets, we provide incentives in the form of sales credit which may be used to offset outstanding invoices due to us and to offset the costs of future purchases. Save for such incentives, we do not provide any remuneration to the distributors.

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Payment terms. We generally price our products uniformly for sale to all our domestic distributors. In turn, they sell our products to the hospitals customers in accordance with the bidding price as determined by each hospital's bidding process. We typically retain control over, and participate in, the procurement bidding process conducted by or on behalf of the hospital customers. We usually grant our distributors a credit period of nil to 90 days from shipment. However, in certain cases the credit period may be longer and, generally, not exceeding 120 days depending on our relationships with the distributors and their credit history.

Termination rights. Distributors are entitled to terminate our distribution agreements in limited circumstances; primarily, if we cease to be able to supply our products to the distributor's sales territory due to legal restrictions or the occurrence of a force majeure event, the affected distributor may terminate its agreement with us by 30 days' written notice. Upon termination of the distribution agreement, the affected distributor may return any unopened products to us for a refund. During the Track Record Period, no distributors or we had unilaterally terminated any distribution agreement prior to the expiry of the agreement.

Exchange and refund policy. Our distributors may be able to exchange some of the products purchased either subject to a cap of 3% of the specified annual sales targets or at our absolute discretion. We do not generally offer refunds for any returned products unless our products are found to be defective or our distribution agreement is terminated by our distributor with cause. The amount of refunds accrued for product returns for the years ended 31 December 2007, 2008 and 2009 was RMB0.5 million, RMB1.5 million and RMB1.0 million, respectively, and our revenue for the respective years was reported net of such amount.

As disclosed in the paragraph headed "Logistic companies — Tri-partite agreements" below, distributors selling our products in the respective logistic companies' sales territories are required to enter into tri-partite distribution agreements with the applicable logistic company and us in addition to the bilateral distribution agreement we enter into with distributors as described above. See the paragraphs headed "Logistic companies — Tri-partite agreements" below for a summary of the primary differences between the terms of the bilateral distribution agreement and the tri-partite distribution agreement.

Our sales team

As part of our after-sale services, we provide our distributors with technical support, including training in the basic technologies of our products and participating in presentations to potential hospital customers. By working with our distributors, our sales support staff are able to provide us with valuable insights into the operations of each distributor, which helps us ensure that each distributor operates effectively to our advantage. Each distributor is assigned to a specific member of our sales team who is assigned to servicing the distributor and would meet the distributor from time to time to discuss market trends and obtain feedback from the hospital customers, and is responsible for ensuring that the distributor's orders, payment and other requirements are met. As at 31 December 2009, our sales team had 59 staff.

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Logistic companies

Benefits from using logistic companies

Managing and supplying to our extensive distribution network is a considerable administrative task. We have been considering ways to improve efficiency by streamlining this aspect of our operations. In 2006, Orthmed Changzhou introduced a pilot scheme, on a trial basis, to delegate part of the administrative tasks to logistic companies. Under such arrangement, we sell our products to logistic companies (which are also licensed distributors) who then on-sell our products to other distributors located within the respective designated sales territory of the logistic companies. Although we do not sell our products to these distributors directly under such arrangement, we maintain our relationship with these distributors. Distributors selling Orthmed Changzhou's products in the respective logistic companies' sales territories will enter into a distribution agreement with us on standard terms similar to those summarised in the paragraph headed "Domestic market — Salient terms of our distribution agreements" above. We negotiate key terms of distributor's distribution agreement such as annual sales target, sales territory and credit period, continue to issue hospital authorisations directly to the distributors to enable them to sell their products to hospitals and provide after-sale services to the distributors. Accordingly, in the event that any of the logistic companies fails to meet its commitments or fails to deliver our products required by our distributors in a satisfactory manner, we would be able to resume the direct business relationship with our distributors. This arrangement allows us to maintain overall control of the relationships with our distributors, and at the same time, offload some of the low margin administrative tasks downstream to logistic companies.

During the Track Record Period, Orthmed Changzhou had contracted with two independent third party logistic companies (both of which our PRC legal adviser has confirmed to have obtained the required distribution licences) and our revenue generated from sales to these two logistic companies was RMB6.9 million, RMB12.9 million and RMB22.4 million for the years ended 31 December 2007, 2008 and 2009, respectively, and accounted for 5.3%, 7.4% and 10.6% of our total revenue for the respective period. As our relationships with the two logistic companies remain stable, we expect our revenue to be generated from the sale of our products to logistic companies in 2010 will further increase. We intend to extend this system to cover more distributors. We believe such system will reduce our administrative burden (such as purchase orders processing, invoicing and payment collection) as we will be able to work with fewer parties on a day to day basis, and at the same time reduce the need for individual distributors, particularly those with smaller operations, to keep excess inventory to service hospital customers, and thus reduce the working capital requirement for such distributors. Further, we are able to reduce our delivery and transportation costs by reducing a number of and per unit cost of deliveries through delivering and transporting our products in larger volume to a limited number of logistic companies (rather than door to door delivery to each distributor). Our Directors do not consider this to be a material change to our operation model and do not consider the use of more logistic companies would have any potential impact on our operations, management and financial performance other than discussed above.

As mentioned in the section headed "Risk Factors — Risks relating to our business — If any major logistic company that we use fails to meet its commitments and deliver our products to distributors or fails to settle its trade payables due to us in full, our business and results of operation may be adversely affected," the use of logistic companies would also increase the concentration of our credit

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risk of trade receivables due from such logistic companies. To minimise such risk, we have assigned specific personnel to monitor the payment made by each logistic company to us. In the event that any material amount becomes overdue from the logistic company, our staff will take appropriate action to follow up on the settlement of the overdue amount. No further products will be delivered to the logistic company until the overdue amount is settled. For detailed payment terms between the logistic companies and us, please see the paragraph headed “Agreements with logistic companies — Payment terms” below. We had not experienced any major delay in payment by any of the two logistic companies during the Track Record Period.

Similar to distributors, we select logistic companies based on factors such as their sales experience, knowledge of medical devices, contacts in the medical community, reputation and market coverage. Further, we take into account the credit worthiness of the logistic companies. These logistic companies are essentially healthcare product distributors.

Agreements with logistic companies

During the Track Record Period, Orthmed Changzhou used two logistic companies and the salient terms of the logistic agreements between these logistic companies and Orthmed Changzhou are summarised as follows:

Exclusive sales territory. Each logistic company is assigned a defined sales territory (one logistic company covers Heilongjiang, Liaoning, Jilin, Inner Mongolia, Beijing, Tianjin, Hebei, Shanxi, Henan and Shandong and the other logistic company covers Sichuan, Chongqing, Yunnan, Guizhou, Tibet, Hunan, Hubei and Guangxi). Pursuant to the terms of the logistic agreements, the logistic companies are not allowed to sell Orthmed Changzhou’s products to distributors outside their respective sales territory. Further, the logistic companies have covenanted not to sell substitute products offered by other manufacturers. Orthmed Changzhou, in turn, covenants with the two logistic companies that they will not sell directly to the distributors or engage other logistic companies in the sales territories assigned to the two logistic companies unless the logistic companies fail to meet their respective sales target.

Sales target. The agreements with the two logistic companies also contain similar provisions on sales targets, exchange and refund policy and termination of the logistic agreement as with those contained in our standard distribution agreements, the salient terms of which are summarised in the paragraph headed “Domestic market — Salient terms of our distribution agreements” above.

Generally, each logistic company maintains an inventory of Orthmed Changzhou products based on market demand to meet sales to distributors in its sales territory. When inventory runs low for certain products or when distributors’ purchase orders exceed the logistic company’s inventory, the logistic company would place purchase orders with Orthmed Changzhou.

Payment terms. The prices of products we sell to the logistic companies are set at a fixed discount to the prices at which we agreed with the respective distributors. This arrangement enables the logistic companies to sell to our distributors in their sales territory at a margin. Orthmed Changzhou has granted each of the logistic companies a fixed value credit limit, and for orders exceeding such credit limit, products will only be delivered upon receipt of payments. For those orders made within the credit limit, they are required to be settled within 60 days.

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Similar to revenue recognition for sales to our distributors, sales of our products to logistic companies are recognised as revenue when products are delivered and title has passed to logistic companies.

Term. Both logistic agreements were entered into in 2008 and will expire on 31 December 2010.

Tri-parte agreements

Distributors selling Orthmed Changzhou products in the two logistic companies' sales territories are required to enter into tri-parte distribution agreements with the applicable logistic company and us in addition to the bi-lateral distribution agreement described in the paragraph headed "Domestic market" above. The primary terms of such tri-parte distribution agreements are as follows:

- the distributor agrees to purchase Orthmed Changzhou products solely from the logistic company party to the agreement at the agreed selling prices under the bi-lateral agreement;
- the distributor covenants to maintain inventory to service hospital customers in its sales territory for at least 30 days. Such requirement has been imposed at the request of the logistic companies to the distributors to maintain certain level of inventory so that the logistic companies can avoid excessive delivery cost and administrative tasks resulted from too frequent orders from the distributors; and
- force majeure events preventing any party from performing its contractual obligations do not constitute a breach of the tri-parte agreement.

We will continue to run the pilot scheme on an extended trial basis, and regularly assess the pros and cons of the scheme and may make necessary adjustments to the full implementation of the scheme depending on our assessment from time to time.

International market

As at 31 December 2009, our international distribution and sales network consisted of 47 overseas distributors and trading companies in China selling our products to 29 countries and territories. We do not have a set of standard terms of distribution agreement for our overseas distributors as we do for our domestic distributors, and instead we enter into sales agreements or memoranda with them on terms which are negotiated and determined on a case by case basis. The terms vary depending on a number of factors such as the length of our relationship with the distributor, the order size and further potential business opportunities with such distributor. During the Track Record Period, our overseas sales remained stable. For the years ended 31 December 2007, 2008 and 2009, our revenue generated from overseas sales (excluding our sales to our OEM customer) was RMB11.6 million, RMB11.4 million and RMB12.0 million, respectively.

We are subject to the risk of product liability claims in relation to our products sold overseas. Given that our business expansion efforts have in the past been focused on developing our domestic market, we have not taken any active measure to limit our liability from product liability claims from our overseas end-customers and we did not identify or purchase any product liability insurance for our products sold overseas. As at the Latest Practicable Date, we had not been involved in any product liability dispute in relation to our products sold overseas. As disclosed in the section headed "Risk Factors — Risks relating to our business," given that all of our assets are located within the

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PRC and China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with many countries, including Japan, the United States and the United Kingdom, it may be difficult for the overseas customers to enforce against our Group in the PRC any judgements obtained from non-PRC courts.

OEM products

In April 2007, Orthmed Changzhou entered into an OEM arrangement with a US-based leading global medical device manufacturer and supplier of orthopaedic surgical instruments. The agreement is for an initial term of seven years commencing on 12 April 2007, which is renewable for successive periods of three years each upon written notice given by the OEM customer prior to the end of the immediately preceding term. Our OEM customer has agreed on a best efforts basis to meet aggregate sales target of US\$35 million over a 60 months' period from 12 April 2007. Pricing of products produced is negotiated and agreed between the OEM customer and us prior to the commencement of production. The OEM customer is given 60 days after delivery on a FCA shipping point basis to inspect the products delivered. On the earlier of the expiration of the 60 days or the delivery of written acceptance from the OEM customer to us, an invoice is issued to the OEM customer for payment by bank transfer within 45 days. Orthmed Changzhou is required to alienate a designated area at its production facility to keep the equipment provided by the OEM customer which are to be used exclusively for manufacturing OEM products for them. The ownership of the equipment remains with the OEM customer. Raw materials used in the production of the OEM products must be sourced from its designated suppliers or otherwise provided by the OEM customer. While the OEM agreement is not on an exclusive basis, Orthmed Changzhou has the right of first refusal in respect of any purchase order which the OEM customer may place with any PRC manufacturer for the contracted products specified in the agreement. Our OEM customer has granted us a limited licence to use its intellectual properties solely for the purposes of manufacturing the contracted products, and we have undertaken to our OEM customer not to design or manufacture any product which incorporates or infringes its intellectual properties. The OEM arrangement may be terminated in limited circumstances. Notably, (1) both parties may terminate with immediate effect if a force majeure event occurs and cannot be cured within 180 days of such occurrence, (2) we may terminate with a 12 months' prior written notice if the OEM customer fails to meet the agreed sales targets and (3) the OEM customer may terminate with a 12 months' prior written notice if during the contractual term we manufacture certain products for a competitor of the OEM customer.

To fulfill our undertaking under the OEM contract as mentioned in the paragraph above, we have appointed designated personnel for the safe keeping of the technical drawings and figures provided by the OEM customer. Further, all the documents and materials in relation to the OEM production are kept separately from other documents and materials of our Group and only the senior management and the designated personnel will be able to access such information.

The OEM customer was our single largest customer during the Track Record Period. For the years ended 31 December 2007, 2008 and 2009, our sales to the OEM customer accounted for approximately 8.8%, 16.1% and 14.9% of our total revenue, respectively. So far, we only produce surgical instruments for our OEM customer. Since such products are not implanted into the human bodies, our Directors believe that the risk of any product liability claim arising from the use of such products is not material.

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MARKETING

All of our sales in the PRC domestic markets are exclusively made to licensed distributors. Typically, our distributors may only sell our products to hospitals which have endorsed us as their approved suppliers following formal bidding processes. It is therefore vital that we remain, and win further bids to be, qualified as approved suppliers of hospitals. Accordingly, we focus our marketing efforts on hospitals as well as distributors in China. We regularly participate in and sponsor international and national medical conferences. In 2009, we participated in 30 such conferences in China including China Med in Beijing and four overseas, including CompaMed in Düsseldorf, Germany and Arab Health in Dubai, United Arab Emirates. We also attended the International Congress of China Orthopaedic Association held in each of the last three years with an eye-catching booth location and design. Trauson Jiangsu was a member of the standing committee of the China Association for Medical Devices Industry, a trade association for promoting the medical device business under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council. As a member of the standing committee which is the executive board of the China Association for Medical Devices Industry, Trauson Jiangsu assumed the executive role for implementing the policy. We constantly maintain close contact and seek to develop new working relationships with various leading surgeons and doctors, including key opinion leaders, in the orthopaedic field to discuss and collaborate on product development.

We intend to step up our sales and marketing team's effort by hiring additional staff to increase the frequency of our visits to hospitals and surgeons to promote our products, with the aim of increasing the awareness of our brands as well as recruiting more hospital customers. In addition to more visits, we plan to organise more seminars on subjects related to our products such as the latest developments in the orthopaedic industry and case studies of orthopaedic surgeries. We believe hosting regular seminars will not only increase our exposure to surgeons and hospitals, it will also help reinforce our position as a leader in the orthopaedic industry.

As part of our commitment to our customers, we usually participate in the procurement bidding process conducted by or on behalf of hospitals. We have dedicated staff who monitor any new release of invitation to bid for orthopaedic products issued by hospitals from time to time. Once we have identified an invitation in which we are interested, we will prepare our bid documents which set out background information of Trauson Jiangsu or Orthmed Changzhou, information of our products and terms of our supply.

CUSTOMERS

We have two categories of customers: distributors (including logistic companies) and OEM customer. For the years ended 31 December 2009, sales to distributors (including logistic companies) comprises 82.4%, 77.3% and 79.5% of our total sales, respectively. During the Track Record Period, we had one OEM customer. We entered into a production agreement with our OEM customer in April 2007 for the production of certain specialty orthopaedic surgical instruments. Under the terms of our agreement, our OEM customer is given a 60 days' period to inspect any shipment of our products. We issue our invoice for the shipment after it has passed the customer's inspection and a certificate is then issued or upon the expiry of the inspection period, whichever is earlier. Payment is due within 45 days from the date of the invoice. Please refer to the paragraph headed "Sales and Distribution" in this section of the prospectus for further information on our distributors, logistic companies and OEM customer.

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For the years ended 31 December 2007, 2008 and 2009, our sales to our five largest customers accounted for approximately 19.0%, 28.2% and 30.0% of our total sales, respectively. In the same periods, our sales to our largest customer, which was our OEM customer, accounted for approximately 8.8%, 16.1% and 14.9% of our total revenue, respectively. None of our Directors and their respective associates or any of our shareholders which, to the knowledge of our Directors, owns more than 5% of our share capital as of the Latest Practicable Date, has any interest in any of our five largest customers.

RESEARCH AND DEVELOPMENT

We endeavour to stay at the forefront of advances in the orthopaedic industry and continue to strengthen our research and development efforts by collaborating with university research centres and surgeons on new product research and by regularly participating in and sponsoring international and national medical conferences on latest developments in orthopaedic surgery. As of the Latest Practicable Date, we had 11 products under development, a number of which are being jointly developed through external collaborations. Subject to the granting of new approval, we expect that one new product will be launched in the PRC market in 2010. Our research and development activities mainly focus on improving our existing products as well as developing new products. During the Track Record Period, we developed over ten new products, and have commenced commercial production and sale of these new products. As of the Latest Practicable Date, we had obtained all the relevant approvals for these new products developed by us.

As of 31 December 2009, we had 29 research staff who hold bachelor or higher degrees and 20 with professional qualifications. We enter into agreements with our research staff which provide that all relevant intellectual property rights belong to us and all research staff are bound by confidentiality obligations with respect to research and development activities. For the years ended 31 December 2007, 2008 and 2009, our research and development expenses, were RMB5.1 million, RMB6.5 million and RMB9.7 million, respectively.

We collaborate with third party research institutions and universities in China to jointly develop new products. Our research partners are independent third parties and currently include Institute of Metal Research of Chinese Academy of Sciences, West China Hospital of Sichuan University and China University of Mining and Technology.

We collaborate on product development or other research such as new material used for production of joint products, cervical total disc replacement system and biodegradable magnesium alloy implants. The terms of our existing collaboration agreements with research partners vary from one to another. In general, we are entitled to use the intellectual property rights arising from the research results, and in some instances, we will have the exclusive right to such intellectual property rights upon payment of certain fees and royalty.

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COMPETITION

The competitive landscape of the PRC orthopaedic industry is made up of a large number of small regional independent manufacturers, several multinational manufacturers with high brand recognition and a number of large-scale national manufacturers such as our Group. Most regional independent manufacturers produce a limited range of products which are targeted at their regional or local markets, while we offer a broad range of 87 models of orthopaedic products and sell across various regions in China as well as to overseas markets.

Our Directors are of the view that we have the following competitive advantages over our competitors in the market:

- we occupy a leading position in the industry; in particular, we are the largest player in the trauma market in terms of market share;
- our products enjoy a strong brand recognition due to their high quality and reliability;
- we are able to offer high quality orthopaedic solutions at competitive pricing;
- we have established a diverse distribution network to cover various geographical areas across the PRC;
- we have an extensive product portfolio; and
- we have a high quality research and development team with 29 research staff who hold bachelor or higher degrees and 20 with professional qualifications.

We believe that we have two to three major competitors in China all of whom are larger-scale orthopaedic specialty product manufacturers, and to a certain extent, we compete indirectly with several major multinational orthopaedic companies in China. We believe that, compared to these companies, we are able to offer high quality orthopaedic solutions at a competitive price.

We believe that our leading position in manufacturing trauma products allows us to position and price our products competitively in the market. We consider high product quality and reliability, good brand recognition and an extensive distribution network to be critical to the continued success of our business. We also aim to maintain our competitive position by the timely introduction of new products in the trauma, spine and joint spaces and continued enhancement of our existing products. We currently have 11 new products under development and expect that one new product will be launched in the PRC market in 2010 and approvals to produce and sell the new products. We will continue to devote resources to the research and development of new and existing products.

PRODUCT CERTIFICATES, PERMITS AND APPROVAL



Enterprises engaged in the production and operation of medical devices in the PRC are required to obtain requisite certificates, approvals and licences from the relevant government authorities. Further details are set out in the section headed “Regulatory Framework” in this prospectus. Trauson Jiangsu and Orthmed Changzhou obtained their first medical device production permit (醫療器械生產企業許可證) from the food and drug administration of the Jiangsu Province in September 2003 and November 2002, respectively. The current production permits of Trauson Jiangsu and Orthmed Changzhou will expire on 10 January 2011 and 26 September 2012, respectively. As at 31 December 2009, we had obtained the requisite product registration certificates

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form the State food and drug administration for 87 models of products. Details of our product registration certificates are stated in section headed “Statutory and General Information — 5. Further information about the business of our Group — C. Our product registration certificates” in Appendix VI to this prospectus.

An approved range of our products are certified with a CE mark issued by TÜV SÜD Product Service GmbH, which indicates full compliance with the Medical Device Directives of the European Union, thus enabling our products to be marketed in the European Economic Area. In addition, we applied for and received 510(k) clearances from USFDA for four of our products including bone screws, plates, intramedullary nails and general spinal systems. 510(k) clearance from USFDA is required to market and sell any of the medical devices in our current product portfolio in the United States. Other than the CE mark and the USFDA 510(k) clearance obtained by us, the distributors are responsible to obtain all the certificates or licences required for the sale of our products overseas.

PATENTS, PROPRIETARY RIGHTS AND PROTECTION

We are the registered owner of various trademarks including  and  in the PRC. Our trademark “Trauson” was also registered with the Office for Harmonisation in the Internal Market, which is the trademark and designs registry for the internal market of the European Union. As at the Latest Practicable Date, we had 33 patents which are either utility models or layout designs and 24 patent applications. In addition, we are the registered owner of the domain names, www.trauson.com, www.wjsy.cn and www.orthmed.com. To protect our proprietary rights, we have entered into confidentiality agreements with our senior management and employees of the research and development department and other employees who have access to secrets or confidential information of our Group. Our senior employees and employees who work in our research and development department and other technical departments are required to sign agreements acknowledging that we own the rights to all inventions, technology know-how and trade secrets generated in connection with their employment with us or their use of our resources or relating to our business or our property.

To date, we have not been sued for infringement of intellectual property rights by any third party. As substantially all of our business is currently conducted in China and save for the registration of our trademark “Trauson” with the Office for Harmonisation in the Internal Market, we have not taken any action outside China to protect our intellectual property. Details of our intellectual property rights are set out in the section headed “Statutory and General Information — 5. Further information about the business of our Group — B. Our intellectual property rights” in Appendix VI to this prospectus.

INSURANCE

We maintain limited product liability insurance and we self-insured our product liability during the Track Record Period. Our current product liability insurance policies cover up to RMB50,000 per claim and RMB2 million per policy year for Trauson Jiangsu products and up to RMB5,000 per policy year for Orthmed Changzhou products. We have previously made enquiries with a number of leading national insurance companies for additional insurance coverage suitable for our business and operations specially for product liability, however, we were unable to identify any such additional insurance coverage owing to the lack of such insurance product offering at all or at a premium acceptable to us. During the Track Record Period, we did not submit any material

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insurance claims. Our Directors believe that the coverage of the insurances obtained by us is consistent with the market practice in China for our type of business and operations. As our business expansion efforts have in the past been focused on developing our domestic market, we did not identify or purchase any product liability insurance for our products sold overseas. As we intend to expand our overseas sales in the future, we are looking at purchasing additional product liability insurance to cover our products sold both in the PRC and overseas. We have engaged a professional insurance broker to locate an insurance company which can provide product liability insurance suitable for our business and operations. Currently we are discussing with the insurance broker as to various aspects of such an insurance policy, including how to determine the nature of the liability under a claim and the amount of premium that is reasonable and acceptable to us. There is no assurance that we will be able to identify or purchase additional product liability insurance at costs acceptable to us.

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

LAND AND PROPERTIES

We own our headquarters and two production facilities in the PRC. Our headquarters and the production facility of Trauson Jiangsu are housed in the same building at Niu Tang Town, Changzhou, Jiangsu, China, with a total gross floor area of approximately 12,995 square metres and occupying a site area of approximately 7,364 square metres. The production facility of Orthmed Changzhou is situated at 177 Qinling Road, Xinbei District, Changzhou, with a total gross floor area of approximately 13,959 square metres on a parcel of land of approximately 40,567 square metres. Orthmed Changzhou is about 15 kilometres away from the production facility of Trauson Jiangsu. We acquired a parcel of land of approximately 59,181 square metres at 9 Longmen Road, Wujin Hi-Tech Zone in the Jiangsu Province and have applied for name change of the holder of the land use right certificate with relevant local authority. A new complex with a total gross floor area of approximately 32,153 square metres is being constructed and is scheduled to be completed by the end of 2010. We intend to relocate the operation and production facility of Trauson Jiangsu to this new complex upon its completion.

Our PRC legal adviser is of the opinion that our Group has obtained all land use right certificates and building ownership certificates for our land and properties in the PRC.

Please see the property valuation report set out in Appendix IV to this prospectus for further details regarding our properties.

CORPORATE SOCIAL RESPONSIBILITIES

As a responsible corporate citizen, we embrace responsibility to our communities and are committed to promoting the public interest. In particular, we have established a charitable foundation called “Trauson’s Project Care” jointly with China Charity Federation (中國慈善總會) to provide financial and other supports to disadvantaged patients who suffer from orthopaedic diseases, in particular scoliosis, a condition in which the spine curves sideways. In particular, we have provided orthopaedic products to the Trauson’s Project Care foundation. Following the 8.0 Ms earthquake in Sichuan which occurred in 2008, we donated, through the China Red Cross, orthopaedic products worth more than RMB6 million to the earthquake victims who suffered from bone injuries. Our

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social responsibility value is shared by our employees and they were supportive of our donation aid extended to the Sichuan earthquake victims and voluntarily made cash donations. We strongly believe in the value of being a responsible corporate citizen and will continue to drive corporate philanthropy that advances quality of life where our employees and customers work, live and do business.

ENVIRONMENTAL MATTERS

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 regional environmental protection bureaux may impose more stringent requirements for local environmental protection. The relevant PRC Laws require any entity operating a facility that produces pollutants or other hazards to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system, which must adopt effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. New construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants to the environment are subject to relevant regulations governing environmental protection for such projects. Entities undertaking such projects must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment to the competent authorities for examination. The facilities for the prevention and control of pollutants are required to be designated, constructed and put into use or operation simultaneously with the main part of a construction project.

Our production process involves generating certain amount of solid waste, industrial wastewater and waste acid. To fully comply with environmental laws and regulations, we have employed environmental specialty companies to deal with various waste generated during our production process. For the years ended 31 December 2007, 2008 and 2009, our costs incurred for compliance with environmental obligations were approximately RMB46,700, RMB49,600 and RMB46,700, respectively. Our cost of compliance with environmental obligations is expected to remain stable for 2010.

We are advised by our PRC legal adviser that as at the Latest Practicable Date, there has been no claim, administrative penalty or other kind of proceedings in respect of environmental protection and safety against our Group. We comply with all relevant laws and regulations in relation to environmental protection and safety in material respects.

LEGAL COMPLIANCE AND PROCEEDINGS

Legal proceedings

From time to time, we may be subject to various claims and legal actions arising in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we were involved in a total of 24 cases of court litigation in the PRC in which we were being sued for damages suffered as a result of alleged unsatisfactory orthopaedic operations involving different products of our Group or other losses related to the use of our products. In each of these cases, we were named a co-defendant or third party, together with the hospital at which the operation was performed and/or the distributor which sold the product in question.

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The following table sets forth the current status of these cases as at the Latest Practicable Date:

Number of cases	Status
1	Withdrawn by claimant
6	Adjudicated or settled, and in which we were not held liable or required to contribute to the compensation (if any) paid to the claimants
1	Adjudicated and the claimant was awarded an aggregate of RMB200,000 to be payable jointly and severally by the co-defendant and us. The claimant has filed an application for retrial with the Supreme People's Court of the PRC and we are waiting for the decision of the Supreme People's Court as to whether it will accept the retrial application
16	On-going

With respect to the one adjudicated case in which we and the co-defendant were ordered to pay jointly and severally awards to the claimant, the Hebei High People's Court held that the hospital defendant failed to remind the claimant that the implant should be removed after the lapse of a certain period, and that the specification of the implant in question had been modified from the specifications set out on the relevant product registration certificate before such modifications were registered with the SFDA. As a result, in 2008 the claimant was awarded an aggregate of RMB200,000 on her claim of US\$8.7 million, to be payable jointly and severally by the co-defendant and us. In February 2010, the claimant applied to the Supreme People's Court of the PRC for a retrial, seeking up to US\$15.7 million in awards and damages. As advised by our PRC attorney advising on the retrial application, the Supreme People's Court will take up to three months, from the date of acceptance of the retrial application, to review and decide whether to approve the retrial application. We were notified by the Supreme People's Court of the claimant's application in March 2010 and we filed a response with the Supreme People's Court on 20 March 2010. Our PRC attorney has further advised us that the Supreme People's Court may or may not allow the claimant's retrial application and in the event that the retrial proceeded and a judgement was ruled against the co-defendant and us, the awards and damages to be awarded in favour of the claimant would not likely to be significantly more than the previously awarded RMB200,000. As at the Latest Practicable Date, we were still waiting for the decision of the Supreme People's Court as to whether it will accept the retrial application. In all these court cases which have been adjudicated or settled, none of the court judgements ruled that our product was defective.

With respect to the 16 on-going cases, the total amount of claims involved is approximately RMB2.4 million (for one case, the amount of claim is still being determined). We have reviewed the status of each on-going case and considered the advice from our litigation attorney. According to our PRC attorney, we would be liable for the claims if our products are proven to be defective or produced not up to the required safety standards. In the opinion of our management, our products in relation to these 16 cases were produced under valid production certificates and they met the relevant safety standards. We will defend our cases by, among others, requesting the court to admit a quality appraisal prepared by an independent expert to show that our products passed the quality standards. On the above basis, our PRC attorney advising on these court cases considers it less than probable

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that the outcome of the cases would be unfavorable to us. In addition, we have never been held liable for any substantial damage due to defects of our products under claims of similar nature in the past. Luna Group, Ms Xu and our chairman have also provided an indemnity to our Company for any damages which may be suffered or incurred by any member of the Group from or in connection with the above mentioned litigation cases or in the event that any our product manufactured and sold before the Listing Date has been determined by a competent authority to contravene the relevant requirements under the corresponding product registration certificates. On the above basis, our Directors are of the opinion that no provisions are required to be made to the accounts in respect of these on-going legal cases.

Save as disclosed above, we were not subject to any material legal or arbitration proceedings during the Track Record Period and up to the Latest Practicable Date.

Administrative penalties

During the Track Record Period, Trauson Jiangsu was subject to one instance of administrative penalty imposed by Changzhou Wujin food and drug administration for the sale, during the period from 10 August to 11 December 2006, of bone plates not in conformity with the specifications set out in its product licences. The penalty resulted in the confiscation of the relevant sales proceeds in the amount of RMB15,200 and a fine of RMB45,600. The products were manufactured by Trauson Jiangsu for a non-standard order placed by a customer. Since the incident, we have assigned a specific personnel in our legal department to coordinate non-standard product orders and review in advance all orders we receive for processing non-standard products to ensure that only orders for products within the parameters of our product licences will be accepted.

During the Track Record Period, we were subject to two administrative penalties imposed by Changzhou Wujin State Tax Bureau due to in one case (i) our omission to submit the requisite invoice to the Tax Bureau and in the other case (ii) our error in claiming certain deductions. The total tax amount involved was RMB23,956 and the total penalty imposed was RMB33,645. To prevent recurrence of such incidents, we have reinforced our internal compliance system and in particular, established a three-tier review system. All tax related filings are now required to be reviewed by the account manager, the audit manager and finally approved by our Group's financial controller.

Save as disclosed above, we were not subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date.

Advances to related parties

During the Track Record Period, we provided advances to certain related parties, including Plusrite Electric (Jiangsu) Co Ltd, Duoliang Investment, Changzhou Chi Cheng New Building Materials Co Ltd, Changzhou Cofey Refrigeration Equipment Co Ltd and Changzhou Wujin Niutang Light Bulb Factory to satisfy their capital or cash flow requirements. Please refer to note 20 to the accountants' report set out in Appendix I to this prospectus for details of these advances. We are advised by our PRC legal adviser that these advances made to related parties are loans between legal persons and as such do not comply with relevant rules in the PRC which require the lender of such loans to be an approved financial institution authorised to engage in money lending. According to the relevant rules, the People's Bank of China has the power to prohibit such loans and subject the lender to an

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administrative penalty of up to five times the revenue generated from such unauthorised loans. The maximum penalty which we may be subject to in respect of the advances we made to the above parties during the Track Record Period is RMB3.9 million, representing five times the interest income from such advances to related parties by the end of the Track Record Period. We are advised by our PRC legal adviser that, in practice, the People's Bank of China tends to penalise unauthorised enterprises that actively engage in the business of money lending, frequently lends to other enterprises or whose activities severely disturb the financial market. All the above advances we made to related parties had been settled and repaid in 2009, except for the advance made to Duoliang Investment which will be repaid before the Listing Date. Duoliang Investment has undertaken to compensate us for any losses incurred as a result of the non-compliance of the advance we provided to Duoliang Investment. On the above basis, we do not believe the above advances to related parties will result in any material amount of penalty or have any material adverse impact on our operation. We have implemented a clear decision-making mechanism in relation to financing transactions and communicated to the relevant decision makers that all future advances (if any) are required to be made in compliance with the relevant laws and regulations.

General

Save as disclosed in the paragraphs in this section of the prospectus headed “Legal compliance and proceedings”, our PRC legal adviser, King and Wood, has confirmed that our Group has complied with relevant laws and regulations in the PRC in all material respects and has obtained all necessary permits, licences and approvals from relevant regulatory authorities which are material for the Group's operations in the PRC, which is the manufacturing of Class II and Class III medical devices referred to in the section headed “5. Further information about the business of our Group — C. Our product registration certificates” in Appendix VI to this prospectus.

CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, our controlling shareholder, Ms Xu, will, through, Luna Group, own approximately 64.2% of the issued share capital of our Company.

Ms Xu is a non-executive Director of our Company and the wife of Mr Qian Fu Qing, our founder, chairman and chief executive officer. Ms Xu was brought up and has spent a substantial amount of time living in China. She is not and has not been a full time government official of any country or a full time employee of any state or government-owned or -operated entity. For details of the background of Ms Xu, please refer to the information set forth in the section headed “Directors, Senior Management and Employees” in this prospectus.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independently of Ms Xu and her associates (excluding Mr Qian Fu Qing who is our chairman and chief executive officer and an executive Director) after the Listing Date for the following reasons:

- our Group has its own independent access to supplies of raw materials, its own independent operation capabilities, as well as its own independent sales and marketing functions;
- all loans given by Ms Xu and her associates to our Group will be repaid on or before the Listing Date. Our Group is financially independent from Ms Xu and her associates;
- there is no competing business between Ms Xu (including her associates) and our Group, and Ms Xu, Luna Group and Mr Qian Fu Qing have entered into a deed of non-competition in favour of our Company. For details, please refer to the section headed “— Non-competition undertaking from our controlling shareholders” below; and
- save for the exempted continuing connected transactions described in the section headed “Connected Transactions” in this prospectus, there are no connected transactions between Ms Xu (including her associates) and our Group that will continue after the Listing.

Non-competition undertaking from our controlling shareholders

Ms Xu and her associates do not have any interest in any business that competes or is likely to compete with our Group and none of our Directors is interested in any business apart from our Group’s business, which competes or is likely to compete, either directly or indirectly, with our Group’s business.

Following the completion of the Reorganisation, Mr Qian Fu Qing holds the entire interests in Duoliang Investment. Duoliang Investment is an investment holding company which holds approximately 60.4% interest in Shanghai Rebone. As of the Latest Practicable Date, the sole business of Shanghai Rebone is the manufacture and sale of artificial bones. Our Directors are of the view that there is a clear delineation between the artificial bone business and the core business of our Group. Artificial bone is a bone-like material that can be used in bone grafts, to replace missing or defective human bone due to severe fractures or disease, while our core products are fixation devices used to maintain the position of the fracture fragments during healing. Artificial bones are bone substitutes, whereas our products are for bone-setting purposes. Furthermore, the artificial bones produced by Shanghai Rebone are made of biomaterials whereas the principal raw materials of the Group’s products are stainless steel, titanium and titanium alloy. The two businesses supplement but

CONTROLLING SHAREHOLDERS

do not substitute each other. As such, there is no competition, directly or indirectly, between the business of Shanghai Rebone and ours. We have no current intention to expand into the artificial bone business nor to acquire the business of Shanghai Rebone. For the years ended 31 December 2007, 2008 and 2009, the net loss of Shanghai Rebone, based on the PRC generally accepted accounting principles, amounted to approximately RMB1.4 million, RMB1.5 million and RMB1.4 million, respectively.

Nonetheless, Ms Xu, Luna Group and Mr Qian Fu Qing (together, the “Covenantors”) have entered into a deed of non-competition (the “Non-Competition Deed”) dated 10 June 2010 in favour of our Company for itself and on behalf of its subsidiaries, pursuant to which each of the Covenantors has undertaken to our Company that, during the Non-Compete Period (as defined below), each of them will not, whether as principal or agent and whether undertaken directly or indirectly (including through any of their associates, subsidiaries, partnerships, joint ventures or other contractual arrangements) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business of manufacture or sale of orthopaedic products and such other business conducted or carried on by any member of our Group from time to time (the “Restricted Business”).

Notwithstanding the foregoing, each of the Covenantors may:

- (a) carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to our Company, and our Company, after review and approval by our independent non-executive Directors or shareholders as required under relevant laws and regulations, has declined such opportunity, provided that the principal terms by which any Covenantor (or any of their associate(s)) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favourable in any material aspect than those offered or made available to our Company;
- (b) have interests in shares or other securities of a company conducting any Restricted Business whose shares are listed on the Stock Exchange or any other recognised stock exchange, provided that:
 - (i) the Covenantors and their associates taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and
 - (ii) at all times there is another independent shareholder who either alone is, or together with its associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Covenantors and their associates are able, or control the composition of a majority of the board of directors of such company.

The “Non-Compete Period” stated in the Non-Competition Deed refers to the period commencing on the date of the Non-Competition Deed and ending on the earlier of:

- (a) the date on which all of Ms Xu, Luna Group, Mr Qian Fu Qing and their respective associates, have ceased to be a controlling shareholder of our Company within the meaning of the Listing Rules; and
- (b) the date on which the Shares cease to be listed on the Stock Exchange.

CONTROLLING SHAREHOLDERS

Under the Non-Competition Deed, in the event that, during the Non-Compete Period, any of the Covenantors intends to dispose of any Restricted Business or any interest in any Restricted Business, the Covenantors shall first offer to our Company the right to acquire such business or interest and the Covenantors may only proceed with such disposal to any third party, on terms not more favourable than those offered to our Company, following the rejection of such offer by our Company.

Corporate governance measures

We will adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of the shareholders of the Company:

- (1) The independent non-executive Directors will review, at least on an annual basis, the compliance with the Non-Competition Deed by the Covenantors;
- (2) The Covenantors have undertaken to us to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-Competition Deed;
- (3) We will disclose the review by our independent non-executive Directors relating to the compliance with, and the enforcement of, the Non-Competition Deed in our annual report or by way of announcements to the public; and
- (4) The Covenantors will make an annual declaration on their compliance with the Non-Competition Deed in our annual reports.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Following the Listing, we will have the following continuing connected transactions from time to time which are exempted continuing connected transactions under the Listing Rules:

- (1) we will continue to purchase lighting equipment from Plusrite Electric (Jiangsu) Co., Ltd. (普羅斯電器(江蘇)有限公司) (“Plusrite Jiangsu”);
- (2) we will lease factory premises to Jiangsu Chuangying Medical Device Co., Ltd. (江蘇創英醫療器械有限公司) (“Jiangsu Chuangying”); and
- (3) Changzhou Cofey Refrigeration Equipment Co., Ltd. (常州市科慧製冷設備有限公司) (“Changzhou Cofey”) will continue to provide processing services to us.

Plusrite Jiangsu is engaged in the manufacture and sale of lighting equipment and is indirectly wholly owned by our controlling shareholder, Ms Xu. For each of the two years ended 31 December 2008 and 2009, purchase of lighting equipment by our Group from Plusrite Jiangsu amounted to approximately RMB5,000. There was no purchase of lighting equipment by our Group from Plusrite Jiangsu for the year ended 31 December 2007.

Jiangsu Chuangying is engaged in the production and sale of dental implants and is a non wholly-owned subsidiary of Duoliang Investment, which is wholly owned by our chairman. Jones Lang LaSalle Sallmanns Limited, our property valuer, has confirmed that the proposed rent payable by Jiangsu Chuangying to our Group for renting the factory premises is fair and reasonable and reflects prevailing market rates.

Changzhou Cofey is primarily engaged in the manufacture of refrigeration equipment and is owned by the brother of Ms Xu. Its cutting machines and equipment can be used to process and cut certain raw materials of our Group. For the years ended 31 December 2007, 2008 and 2009, fees for the processing services provided by Changzhou Cofey to our Group amounted to approximately RMB0.5 million, RMB0.8 million and RMB0.5 million, respectively.

We have no current intention to expand into the businesses of each of Plusrite Jiangsu, Jiangsu Chuangying and Changzhou Cofey nor to acquire their businesses.

Each of Plusrite Jiangsu, Jiangsu Chuangying and Changzhou Cofey is a connected person of our Company. The Directors (including the independent non-executive Directors) are of the view that the above transactions are entered into on normal commercial terms and in the ordinary and usual course of business of our Group, and are fair and reasonable and in the interests of the Company and its shareholders as a whole. In each of these cases, the applicable percentage ratios under the Listing Rules on an annual basis will be less than 0.1% and accordingly such transactions will be exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board consists of seven members, three of whom are independent non-executive Directors. The following table provides certain information about our Directors:

Name	Age	Position
Mr Qian Fu Qing (錢福卿 先生)	55	Chairman, chief executive officer and executive Director
Ms Ren Feng Mei (任鳳妹 女士)	46	Executive Director
Mr Cai Yong (蔡勇 先生).	35	Executive Director
Ms Xu Yan Hua (徐燕華 女士)	54	Non-executive Director
Mr Chan Yuk Tong (陳育棠 先生).	47	Independent non-executive Director
Dr Lu Bing Heng (盧秉恒 博士).	65	Independent non-executive Director
Mr Zhao Zi Lin (趙自林 先生)	61	Independent non-executive Director

Executive Directors

Mr Qian Fu Qing (錢福卿 先生), aged 55, is the founder, chairman and the chief executive officer of our Group, and has been with our Group since its establishment. He was appointed the chairman and an executive Director of our Company on 27 January 2010 and assumed the chief executive officer role from 10 June 2010. Mr Qian also holds senior management roles in a number of the Company's subsidiaries, including being the sole executive director of our two principal operating subsidiaries, Trauson Jiangsu and Orthmed Changzhou. Mr Qian is primarily responsible for the overall corporate strategies, planning and business development of our Group. Mr Qian has over 20 years of experience in manufacturing, sales and distribution of manufactured goods in the PRC, including rich experience in the research, development, manufacture and sale of orthopaedic products and related instruments in the PRC. He was the legal representative of Wujin No. 3 Medical Device Factory (武進第三醫療器械廠), which was engaged in the manufacture of orthopaedic implants. Besides his involvement in the orthopaedic industry, he has also gained substantial experience in other business areas. From 1989 to 2006, Mr Qian was part of the management of Changzhou City Wujin Special Lightning Factory Company Limited (常州市武進特種光源廠有限公司). He has been part of the senior management of Jiangsu Plusrite Electric Company Limited since its establishment in 1990. Mr Qian was the deputy chairman of the first and the second Orthopaedic Implant Experts Committee of China Association for Medical Devices Industry ("CAMDI"), respectively, and has been the honorary chairman of the second Orthopaedic Implant Experts Committee of CAMDI since 2007. He was also appointed the deputy committee chairman of Changzhou Medical Quality Management Association (常州市醫藥質量管理協會) in 2007. Owing to his entrepreneur experience, Mr Qian has been invited to be a consultant to a number of non-profit committees including serving on the Optometry Committee of China Academy of Lighting, as a special adviser to Jiangsu Wujin Hi-Tech Zone and as an analyst with Jiangsu New Century Enterprises Product Development Centre. He was recognised as an engineer by Changzhou Professional Title Reform Leading Group (常州市職稱改革領導小組) in 1993 and a senior operator by China General Chamber of Commerce in 2009. Recently, Mr Qian has also been appointed as a lecturer at Hubei No. 1 Light Industry School (湖北省一輕工業學校). He completed an Advanced Course in the Economic Faculty of Southeast University (東南大學) in Nanjing in 2005.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

In 2009, Mr Qian completed an advance programme on financial investment and corporation finance of the State Strategy Centre of the Shanghai Jiaotong University. Mr Qian is the spouse of Ms Xu and is the uncle-in-law of Ms Li Ya Wen, a member of our senior management.

Ms Ren Feng Mei (任鳳妹 女士), aged 46, has been an executive Director of our Group since 10 June 2010 and the chief operating officer of our Group since May 2009. She joined Orthmed Changzhou in December 2004 and was promoted to the position of production manager in March 2005. Since she joined Orthmed Changzhou, Ms Ren has been in charge of our OEM production, including negotiating and liaising with our OEM customer, setting up our OEM team and continuously making efforts in our product quality control and improving our production efficiency. Ms Ren is primarily responsible for coordinating administration and overseeing production within our Group. During 1983 to 2002, Ms Ren worked for Tianjin Medical Devices Supervision and Testing Centre (天津市醫療器械質量監督檢驗中心), one of the ten national medical devices supervision and testing centres under SFDA. During 1998 to 2002, She was the director of the orthopaedic products testing office of the centre. During that period, Ms Ren was mainly responsible for the product testing, supervision and random inspection of the domestic orthopaedic product quality and the formulating and amending of basic orthopaedic industry standards. Between 1999 and 2002, she was also the secretariat of the National Technical Committee on the Standardisation of Surgical Implants and Orthopaedic Devices (全國外科植入物和矯形器械標準化技術委員會). She is the secretariat of the Surgical Implant Committee of China Association of Medical Devices (中國醫療器械行業協會外科植入物專業委員會).

Mr Cai Yong (蔡勇 先生), aged 35, has been an executive Director of our Group since 10 June 2010. He joined Trauson Jiangsu since its establishment in 2003 and was the research and development director of our Group from October 2005 until his appointment as executive Director of our Group. Following the restructuring of the research and development department into the current marketing and research and development department, Mr Cai assumed his current position of the director of marketing and research and development department, and concurrently served as the director of the R&D division under the department. Mr Cai is primarily responsible for the research and development of new products of our Group and is the person in charge for our collaboration with university research centres and surgeons on new product research. Mr Cai is a senior engineer (高級工程師) with 13 years of experience in design, research and development. During 2000 to 2002, Mr Cai worked for Changzhou Leili Electrical Equipment Company Limited (常州雷利電器有限公司) in the research and development of machinery parts and components. Before that, he was a technician in Changzhou No. 2 Electronic Instrument Factory (常州第二電子儀器廠). Since he joined our Group in 2003, he has assisted in the development of our orthopaedic products, including the locking plate system, and in our application of 13 patents in the PRC. Mr Cai obtained a junior college qualification jointly granted by Nanjing University (南京大學) and Dongnan University (東南大學) in 2001.

Non-executive Director

Ms Xu Yan Hua (徐燕華 女士), aged 54, has been a non-executive Director of our Company since 27 January 2010. Ms Xu is also the controlling shareholder of our Company and a director of a number of our Company's subsidiaries, including Trauson Holdings BVI, Trauson Holdings HK, Trauson Hong Kong (the holding company of Trauson Jiangsu) and Orthmed Hong Kong (the

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

holding company of Orthmed Changzhou). Ms Xu was a director of Orthmed Changzhou since 2005 until November 2007. In 1991, Ms Xu completed a course on township industry economics and management (鄉鎮工業經濟管理) in Nanjing Normal University (南京師範大學). Ms Xu is the spouse of our chairman and the aunt-in-law of Ms Li Ya Wen, a member of senior management.

Independent non-executive Directors

Mr Chan Yuk Tong (陳育棠 先生), aged 47, was appointed independent non-executive Director of our Company on 10 June 2010. Mr Chan graduated from the University of Newcastle in Australia with a bachelor's degree in commerce in 1985, and from the Chinese University of Hong Kong with a master's degree in business administration in 2005. Mr Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. His directorships held with publicly listed companies currently and in the last three years are as follows:

Listed Company	Role	Period
Asia Cassava Resources Holdings Limited	Executive Director	July 2008 to present
Vitop Bioenergy Holdings Limited	Non-executive director	February 2008 to present
	Executive director	December 2006 to February 2008
Anhui Conch Cement Company Limited	Independent non-executive director	June 2007 to present
Ausnutria Dairy Corporation Ltd	Independent non-executive director	September 2009 to present
BYD Electronic (International) Company Limited	Independent non-executive director	November 2007 to present
Daisho Microline Holdings Limited	Independent non-executive director	September 2004 to present
Global Sweeteners Holdings Limited	Independent non-executive director	June 2008 to present
Great Wall Motor Company Limited	Independent non-executive director	May 2010 to present
Jia Sheng Holdings Limited (formerly known as Carico Holdings Limited)	Independent non-executive director	November 2006 to present
Kam Hing International Holding Limited	Independent non-executive director	March 2004 to present
Sichuan Xinhua Winshare Chainstore Co Ltd	Independent non-executive director	April 2006 to present
China Pipe Group Limited (formerly known as World Trade Bun Kee Ltd)	Independent non-executive director	January 2007 to July 2007 ^(Note)

Note: Mr Chan Yuk Tong resigned as an independent non-executive director in July 2007 due to the change of management and controlling shareholders of China Pipe Group Limited.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr Chan has over 20 years of experience in audit, accounting, management consulting and financial consulting services. During 1988 to 1999, Mr Chan worked in Ernst & Young and was an audit principal since 1994. After he left Ernst & Young, he joined Tak Sing Alliance Holdings Limited (HK Stock Code: 126) as an executive director. He joined G2000 Group in 2000 as a finance director and was appointed as a sale director in 2003 (until 2004).

Mr Chan has provided a written confirmation to the Company that despite his current directorships with the above listed companies, he will be able to devote sufficient time and resources to the Company and discharge his duties as an independent non-executive Director effectively, in light of his background and financial expertise as well as his familiarity with the corporate governance principles and requirements under the Listing Rules.

Dr Lu Bing Heng (盧秉恒 博士), aged 65, was appointed independent non-executive Director of our Company on 10 June 2010. Dr Lu is currently the vice-president of the Chinese Mechanical Engineering Society and the president of the Rapid Prototype & Manufacturing Technology Sub-Council of the China Association of Machinery Manufacturing Technology. Dr Lu obtained a master's degree of Mechanical Engineering and a PhD from Xi'an Jiaotong University in 1982 and 1986, respectively, and has been a part of the teaching faculty of Xi'an Jiaotong University since 1986. Dr Lu is also an academician of the Chinese Academy of Engineering.

Mr Zhao Zi Lin (趙自林 先生), aged 61, was appointed independent non-executive Director of our Company on 10 June 2010. Mr Zhao is the standing deputy general director of China Association of Medical Equipment (中國醫學裝備協會) ("CAME"), a non-profit academic and legal entity approved by and registered with the Ministry of Civil Affairs (民政部) in the PRC and directly supervised by the Ministry of Health. Mr Zhao has more than 20 years' experience in working with a number of departments of the Ministry of Health. Before he took up his current position in CAME, Mr Zhao was the director-general of the Department of Planning and Finance of the Ministry of Health for the period during 2005 to 2010 and the deputy director-general from 1998 to 2005.

Save as disclosed in the Directors' biographical details above, each of our Directors confirms with respect to himself that: (i) he has not held any directorships, current or past, since the beginning of the Track Record Period up to the date of this prospectus in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he is not related to any other Director, senior management or substantial or controlling shareholders of our Company; (iii) there is no information to be disclosed for him pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; (iv) there are no other matters that need to be brought to the attention of holders of securities of our Company; and (v) all the requirements under Rule 13.51(2) of the Listing Rules have been fulfilled.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SENIOR MANAGEMENT

The following table provides certain information about members of our senior management team whose business address is at 31 Houlu Village, Niutang Town, Changzhou City, Jiangsu Province, China:

Name	Age	Position
Mr Ng Ming Chee James (黃晞華 先生) .	44	Chief financial officer
Mr Fan Jia Zhen (樊家震 先生)	33	Financial controller
Mr Gao Yi (高一 先生)	39	Production director of Trauson Jiangsu
Mr Qian Lin Wei (錢林偉 先生)	53	Production director of Orthmed Changzhou
Ms Li Ya Wen (李亞文 女士)	42	National sales manager of Trauson Jiangsu
Mr Wu Cheng (吳成 先生)	31	National sales manager of Orthmed Changzhou

Mr Ng Ming Chee James (黃晞華 先生), aged 44, is the chief financial officer of our Group. He joined us in November 2009. Mr Ng is an Australian Certified Practising Accountant. Mr Ng started his career as an auditor with Coopers & Lybrand in Kuala Lumpur, Malaysia and continued to work with a number of multinationals occupying senior finance roles. He has been the financial controller of Mars China, regional finance manager of British American Tobacco (Asia Pacific North) and Pepsico Inc (China), respectively and the finance director for Greater China of Intel Inc and Publicis Groupe of Company in China. He was the chief financial officer of National Basketball Association for the Greater China region before he joined our Group. Mr Ng has over 20 years of experience in the accounting field. He obtained a master's degree in business administration from Brunel University, England in 2003, and a bachelor's degree in commerce from the University of Western Australia in 1987.

Mr Fan Jia Zhen (樊家震 先生), aged 33, is the financial controller. Mr Fan is a PRC certified public accountant and certified tax accountant and is primarily responsible for our Group's financial management system. Since he graduated from Jiangsu Finance and Economics Colleague (江蘇財經高等專科學校) in 1999, he had worked with a number of professional accounting firms as project manager or audit manager in the PRC. Before he joined us in 2007, he was a financial manager of GOME Electrical Appliances Holding Limited (Stock code: 493).

Mr Gao Yi (高一 先生), aged 39, is the production director of Trauson Jiangsu. He joined our Group in February 2007 as an assistant to our chairman. Mr Gao is primarily responsible for daily production of Trauson Jiangsu, including production planning, raw material procurement, product quality control, production efficiency improvement and production training to employees. Mr Gao has rich experience gained in multinational manufacturers on the production front. Prior to joining our Group, he had been the project operation manager of a factory of SAE Magnetics (HK) Limited, a subsidiary of TDK Corporation and a factory manager of Fujitsu. He also worked in the product technology section of a PRC subsidiary of Panasonic. Mr Gao has a master's degree in business management from Zhongshan University and a bachelor's degree in engineering (industrial electric automation) from Jiangnan University in China.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr Qian Lin Wei (錢林偉 先生), aged 53, is the key performance index director of our Group and the production director of Orthmed Changzhou. He joined our Group in June 2009. Mr Qian is primarily responsible for the overall production efficiency improvement of our production facilities and the daily production of Orthmed Changzhou. He also assists Ms Ren in our OEM production. Mr Qian has over 20 years of manufacturing experience gained at a number of international and domestic corporations including being the plant manager of Avocet Security Products Company Limited (Suzhou), the manufacturing manager of Delphi Packard Electric Shanghai Company Limited and the engine plant section manager and maintenance manager of Shanghai Volkswagen Automotive Company Limited. Mr Qian has a master's degree in business management from Maastricht Management University and a bachelor's degree in electronic instrument and measuring technology from the Shanghai University of Science and Technology. Mr Qian is not related to our chairman.

Ms Li Ya Wen (李亞文 女士), aged 42, is the national sales manager of Trauson Jiangsu. She joined Trauson Jiangsu in 2003. She had served as the sales manager of Trauson Jiangsu from February 2006 until March 2009 when she was promoted to her current position. She is primarily responsible for overseeing the sale of products by Trauson Jiangsu in the domestic market. She completed an EMBA programme conducted by the Overseas Education College of Shanghai Jiaotong University in 2008. Ms Li is the niece-in-law of the chairman and Ms Xu.

Mr Wu Cheng (吳成 先生), aged 31, is the national sales manager of Orthmed Changzhou. He joined our Group in 2005 and became the sales manager of Orthmed Changzhou in November 2005. He was promoted to the current position in July 2008. He is primarily responsible for overseeing the sale of products by Orthmed Changzhou in the domestic market.

COMPANY SECRETARY

Mr Ngai Wai Fung (魏偉峰 先生), FCIS, FCS(PE), CPA, ACCA, aged 48, is the company secretary of our Company. Mr Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr Ngai is currently the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee. Mr Ngai is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr Ngai holds a master's degree in corporate finance from the Hong Kong Polytechnic University, a master's degree in business administration from Andrews University of the United States and a bachelor's degree in laws (with Honours) from the University of Wolverhampton, the United Kingdom. He is also undertaking a PhD course (thesis stage) in finance at the Shanghai University of Finance and Economics.

Mr Ngai currently acts in the capacity of independent non-executive director of six Hong Kong listed companies, company secretary for seven other Hong Kong listed companies and joint company secretary for nine Hong Kong listed companies. As a director and head of listing services of KCS Hong Kong Limited, Mr Ngai is leading a team of professional staff, which offers on-going professional company secretarial and compliance services to listed companies and thus provides day-to-day support to Mr Ngai in his role as the company secretary of our Company.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS' REMUNERATION

The determination of the remuneration of the Directors and senior management of our Company is based on the individual performance, the nature and responsibilities of the executive concerned and the results of our Group and market condition. The existing remuneration policy for Directors and senior management of our Company will continue after the Listing.

The aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits in kind and contributions to pension schemes we paid to the relevant Directors in respect of the years ended 31 December 2007, 2008 and 2009 were approximately RMB0.7 million, RMB1.8 million and RMB2.7 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in note 10 to the accountants' report as set out in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the Track Record Period for the loss of office as director 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 waived or agreed to waive any emoluments during the Track Record Period.

It is estimated that remuneration (excluding discretionary bonus) and benefits in kind equivalent to approximately RMB6.3 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending 31 December 2010 under arrangements in force at the date of this prospectus.

The five highest paid individuals of our Group for the Track Record Period included two Directors in 2007, three Directors in 2008, and two Directors in 2009 whose remunerations are included in the aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits in kind and contributions to pension schemes we paid to the relevant Directors set out above. Excluding such Directors, the aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits in kind and contributions to pension schemes to the remaining five highest paid individuals by our Group in respect of the years ended 31 December 2007, 2008 and 2009 were approximately RMB0.9 million, RMB0.8 million and RMB2.9 million, respectively.

During the Track Record Period, no remuneration was paid to the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

MANAGEMENT PRESENCE

According to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong including that normally at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Our headquarters and substantial business operations are in the PRC.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Currently, two executive Directors reside in the PRC and one executive Director resides in Singapore. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the conditions that we, among other things, have the following arrangements in place to maintain communication between the Stock Exchange and ourselves:

- appoint two authorised representatives, namely Mr Qian Fu Qing and Mr Ngai Wai Fung, who will act at all times as our principal channel of communication with the Stock Exchange;
- appoint a compliance adviser as an additional communication channel;
- each of our Directors will provide his or her respective mobile phone number, office phone number, e-mail address and fax number to the Stock Exchange; and
- each of our Directors possesses or can apply for valid travel documents to Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time.

Each of our authorised representatives will be readily contactable by telephone, facsimile and/or e-mail to deal promptly with any enquiries which may be raised by the Stock Exchange, and to act at all times as the principal channel of communication between the Stock Exchange and us.

Each of the above authorised representatives will have the necessary means to contact all members of our Board promptly at all times when the Stock Exchange wishes to contact them for any matters. We will inform the Stock Exchange if there shall be any change to our authorised representatives.

AUDIT COMMITTEE

Our Company established an audit committee on 10 June 2010 with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Company.

The audit committee comprises three members, namely, Mr Chan Yuk Tong, Mr Zhao Zi Lin and Ms Xu Yan Hua, two of whom are independent non-executive Directors. The audit committee is chaired by Mr Chan Yuk Tong.

REMUNERATION COMMITTEE

Our Company established a remuneration committee on 10 June 2010 with effect from the Listing. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of our executive Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The current members of the remuneration committee are Mr Zhao Zi Lin, Dr Lu Bing Heng and Mr Qian Fu Qing. The remuneration committee is chaired by Mr Zhao Zi Lin.

NOMINATION COMMITTEE

Our Company established a nomination committee on 10 June 2010 with effect from the Listing to make recommendations to our Board regarding candidates to fill vacancies on our Board.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The current members of the nomination committee are Dr Lu Bing Heng, Mr Chan Yuk Tong and Mr Qian Fu Qing. The nomination committee is chaired by Dr Lu Bing Heng.

EMPLOYEES

As at 31 December 2009, we had 840 full-time employees. The table below sets forth a breakdown of our total number of employees by function for the periods indicated:

Function	As at 31 December		
	2007	2008	2009
Production	466	659	644
Management, finance, human resources and regulatory compliance	88	83	60
Sales and marketing	43	63	59
Research and development	26	33	68
Others	<u>0</u>	<u>5</u>	<u>9</u>
Total	<u>623</u>	<u>843</u>	<u>840</u>

Our Directors believe that our employees are among the most valuable assets of our Group and have contributed to our success. We provide training to individual employees according to their own job description. In particular, we provide in-house training to our employees to enhance their knowledge of the products we provide, corporate culture and sales techniques.

During the Track Record Period, we did not experience any significant turnover of employees or any material disruption to our business operations due to labour disputes. Our Directors consider that we have maintained a good relationship with our employees.

We enter into written employment contract with each of our employees. We also maintain a written policy that establishes stringent guidelines and principles governing employee retention and termination. When we terminate any employee, we terminate them strictly in accordance with our internal employment policy, our obligations under the employment contracts and the PRC laws.

The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee's qualification, position and seniority. We have designed an annual review system to assess the performance of our employees, which form the basis of our determination on salary raise, bonus and promotion. We believe the salaries and benefits that our employees receive are competitive in comparison with market rates.

The costs of our employees (including employees welfare expenses but excluding our Directors' remuneration, which are set out in the paragraph headed "Directors' remuneration" above) for the years ended 31 December 2007, 2008 and 2009 were approximately RMB20.2 million, RMB33.7 million and RMB39.0 million, respectively.

In accordance with the relevant national and local labour and social welfare laws and regulations in the PRC, we are required to pay, in respect of our employees in the PRC, various social security funds including basic pension insurance (基本養老保險), basic medical insurance (綜合醫療保險),

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

unemployment insurance (失業保險), occupational injury insurance (工傷保險), insurance for maternity leave (生育醫療保險) and accumulation fund (公積金). On the basis of the confirmations that we have obtained from the relevant PRC government where our business is located, we believe we have complied in all material respects with applicable PRC laws and regulations in relation to our obligations to contribute to various social security funds for employees.

OCCUPATIONAL SAFETY

We pay close attention to the health and safety of our employees and protective and preventive measures have been put in place in various aspects. In particular, we provide training to our employees to increase their general safety consciousness and to increase their familiarity with the operation of various machines and equipment. In addition, we have also set up internal procedures to maintain a safe working environment for our employees. As a result of our continuing efforts in this respect, there had not been any material work accidents relating to the health or safety of our employees during the Track Record Period.

COMPLIANCE ADVISER

We have appointed Mizuho Securities Asia Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise us on the following matters in accordance with Rule 3A.23 of the Listing Rules:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) 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 Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us of unusual movements in the price or trading volume of our listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we send our financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date.

SHARE CAPITAL

SHARE CAPITAL

Our Company has an authorised share capital of HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each. Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
		(HK\$)	
562,500,000	Shares in issue	56,250,000	75.0%
<u>187,500,000</u>	Shares to be issued under the Global Offering	<u>18,750,000</u>	<u>25.0%</u>
<u>750,000,000</u>	Total	<u>75,000,000</u>	<u>100.0%</u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
		(HK\$)	
562,500,000	Shares in issue	56,250,000	72.3%
<u>215,626,000</u>	Shares to be issued under the Global Offering	<u>21,562,600</u>	<u>27.7%</u>
<u>778,126,000</u>		<u>77,812,600</u>	<u>100.0%</u>

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional.

It takes no account of any Shares which may be allotted, issued or repurchased by us under the Issue Mandate and the Repurchase Mandate granted to our Directors as referred to below.

RANKING

The Offer Shares will rank pari passu in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and will qualify in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

GENERAL

Save for the Over-allotment Option, no share or loan capital of our Company or any of its subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

SHARE CAPITAL

Other than the Global Offering, we do not propose to carry out a public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any Share issue plan other than the Global Offering.

We have given certain undertakings in respect of the issuance of our Shares and other securities. See “Underwriting — The Hong Kong Public Offer — Undertakings”.

GENERAL MANDATES

General mandate to issue Shares

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

1. 20% of the aggregate nominal value of Shares in issue immediately following the completion of the Global Offering, excluding the Shares which may be issued under the Over-allotment Option; and
2. the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

The Issue Mandate does not apply to situations where our Directors allot, issue or deal with Shares by way of rights or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or any other option scheme or similar arrangement for the grant or issue to officers and/or employees of our Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by our shareholders in our general meeting.

The Issue Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- at the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- when varied or revoked by an ordinary resolution of our shareholders in general meeting,

whichever is the earliest.

For further details of the Issue Mandate, see the paragraph headed “1. Further Information about our Company — C. Resolutions in writing of the shareholders of our Company” in Appendix VI to this prospectus.

General mandate to repurchase Shares

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with nominal value of up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering but excluding any Shares which may be issued under the Over-allotment Option.

SHARE CAPITAL

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “2. Purchase by our Company of its own securities” in Appendix VI to this prospectus.

The Repurchase Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- at the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- when varied or revoked by an ordinary resolution of our shareholders in general meeting,

whichever is the earliest.

For further details of the Repurchase Mandate, see the paragraph headed “1. Further Information about our Company — C. Resolutions in writing of the shareholders of our Company” in Appendix VI to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion in conjunction with the combined financial statements included in the accountants' report and the notes thereto (the "Accountants' Report") included in Appendix I to this prospectus and the selected historical financial information and operating data included elsewhere in this prospectus. The combined financial statements have been prepared in accordance with HKFRS.

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors" in this prospectus.

The financial information extracted from our combined financial statements as of and for the years ended 31 December 2007, 2008 and 2009 included in this prospectus is audited. Financial information as of or for any period prior to 1 January 2007, and as of or for any periods subsequent to 31 December 2009 included in this prospectus is derived from management accounts and is therefore unaudited.

OVERVIEW

We are a leading producer of orthopaedic products in China. We design, manufacture and sell a broad range of trauma and spine orthopaedic implants and related surgical instruments. According to a market research conducted by China Orthopaedics and commissioned by us, we were the largest producer of trauma products and one of the top three producers of spine products among the PRC orthopaedic product manufacturers in 2009 in terms of market share.

Our products can be broadly classified into the following three categories:

- Trauma products — which are used for the surgical treatment of bone fractures of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet due to accidents or pathological or other reasons. Our trauma products are comprised of internal fixation devices such as cannulated and solid intramedullary nails, and standard and locking plates and screws.
- Spine products — which are used for the surgical treatment of spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons. Our spine products include pedicle screws, meshes, cages for spinal fusion, hooks, and anterior and posterior cervical fixation systems.
- Other products — which include orthopaedic cables, external fixators and surgical instruments.

We sell our products mainly under our own brands, Trauson and Orthmed. We also produce specialty surgical instruments under an OEM arrangement for a leading global medical device manufacturer. In addition, in May 2010 we entered into a distribution arrangement to distribute third-party produced spine products and surgical instruments for on-sale by our authorised distributors in the PRC to complement our existing product lines.

We have grown our business substantially since our inception. Our revenue for the years ended 31 December 2007, 2008 and 2009 was RMB131.6 million, RMB173.7 million and RMB211.5 million, respectively, representing a CAGR of 26.8% during the Track Record Period. Our profit before tax

FINANCIAL INFORMATION

for the years ended 31 December 2007, 2008 and 2009 was RMB54.1 million, RMB74.8 million and RMB94.1 million, respectively, representing a CAGR of 31.8%. Our profit attributable to owners of our Company for the years ended 31 December 2007, 2008 and 2009 was RMB55.7 million, RMB64.8 million and RMB82.2 million, respectively, representing a CAGR of 21.4%.

We have grown our business by extending our product lines and increasing the distribution of our products. We manufacture and market a diversified portfolio of products under our own brands which as at 31 December 2009, comprised of (i) 22 trauma products, making up 64.0% of our total revenue for 2009, (ii) six spine products, making up 14.8% of our total revenue for 2009, and (iii) 59 other products, making up 6.3% of our total revenue for 2009. As of the Latest Practicable Date, we have 11 products under development and, subject to the granting of regulatory approval, we expect one new product to be launched in the PRC market in the course of 2010. We also produce specialty surgical instruments under an OEM arrangement, making up 14.9% of our total revenue for 2009.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands with limited liability on 27 January 2010. As a result of the Reorganisation, our Company became the indirect holding company of Trauson Jiangsu and Orthmed Changzhou, our two principal operating subsidiaries. Our Group, which is comprised of our Company and its subsidiaries resulting from the Reorganisation, is regarded as a continuing entity. Our Group was under the control of Ms Xu prior to and after the Reorganisation. For further details of the Reorganisation, please refer to the section headed “History and Development — Reorganisation” in this prospectus.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows include the results and cash flows of the companies and business comprising our Group as set out in the Accountants’ Report have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation or establishment, up to 31 December 2009 or the date of Transfer (defined below), where this is a shorter period. The combined statements of financial position as set out in the Accountants’ Report as at 31 December 2007, 2008 and 2009 have been prepared to present the assets and liabilities of the companies and business comprising our Group as if the current group structure had been in existence at those dates.

The combined financial information included in the Accountants’ Report incorporates the financial information of (i) the companies now comprising our Group and (ii) Shanghai Trauson Medical Instrument Company Limited, Shanghai Guang Yin Medical Instrument Company Limited and Shanghai Guang Yin Trading Company Limited (collectively the “Old Shanghai Trading Entities”). The Old Shanghai Trading Entities were controlled by our controlling shareholder Ms Xu. Since the commencement of the Track Record Period and until the end of October 2009, the Old Shanghai Trading Entities carried on certain trading activities for our Group. Since November 2009, Trauson Jiangsu had gradually taken up such trading activities and the Old Shanghai Trading Entities ceased the relevant operations (the “Transfer”). Accordingly, the Old Shanghai Trading Entities were not included in our Group in the Reorganisation.

All intra-group transactions, balances, income and expenses are eliminated on combination.

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FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations are significantly affected by a number of factors, many of which that affect our industry and market may not be within our control. A discussion of these major factors is set out below.

Growth of the PRC orthopaedic market

Our financial results have been, and we expect them to continue to be, affected by the growth of the PRC orthopaedic market. According to a market research conducted by China Orthopaedics, the PRC orthopaedic market increased from approximately RMB2,720 million in 2006 to approximately RMB4,960 million in 2009. For additional details regarding the growth of the PRC orthopaedic market, please refer to the section headed “Industry Overview” in this prospectus. The key factors expected to drive the growth of the PRC orthopaedic market include:

- **continued growth in the China’s economy.** China’s economy is one of the world’s fastest growing economies. According to National Bureau of Statistics of China, the nominal GDP and the per capita GDP of China grew on a CAGR basis by 16.0% and 15.4%, respectively, from 2005 to 2009. Although the Chinese economy is not unaffected by the recent global recession triggered by the global financial crisis, the continued economic growth in the longer term is expected to drive the growth of the China’s healthcare market at large as well as the orthopaedic market.
- **increased income and health awareness of the population.** With rising living standards and increasing disposable income, people in China have become more health conscious. These developments have resulted in both Chinese nationals spending more on healthcare. According to World Health Organisation, the PRC healthcare per capital has increased from US\$81.1 in 2004 to US\$146.6 in 2009. We believe this trend will continue and will contribute to the growth of the PRC orthopaedic market.
- **government policies.** In September 2008, the PRC government announced a healthcare reform plan with the aim of establishing a basic, universal healthcare framework to provide Chinese nationals with safe, efficient, convenient and affordable healthcare. Amongst other initiatives, the government intends to spend an additional RMB850 million between 2009 and 2011 in the healthcare industry. We believe the healthcare reform will result in increasing investment in the healthcare sector that will benefit the orthopaedic market and producers with a wide distribution reach such as ourselves.
- **ageing population.** The significant growth of China’s ageing population, which historically spends relatively more on healthcare than the population at large, is expected to drive the growth for the PRC orthopaedic market. In particular, degenerative medical conditions of the musculoskeletal system for which orthopaedic products are used tend to affect the elderly population. Rising life expectancy is also expected to contribute to the growth of China’s ageing population, both as an absolute number and as a percentage of the total population.

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- **increased number of medical professionals trained to perform orthopaedic surgeries that incorporate the types of orthopaedic products we produce.** Orthopaedic surgery is a medical specialty that requires in-depth specialised knowledge and systematic training. In the past, the knowledge base of orthopaedic surgeons in China was limited due to the lack of product innovation and limited exposure to the latest medical development in this field. We believe that increased interaction between surgeons in China and the medical community in the western world in the last 20 years, coupled with the increasing penetration of western orthopaedic companies into China, has led to the growth of the number of surgeons in China, as well as an increase in their knowledge of orthopaedic surgical technologies. The growing number of orthopaedic surgeons in China and their knowledge base are expected to continue to contribute to the growth of the orthopaedic market in the PRC.

Regulations and government policies

As more fully described in the section headed “Regulatory Framework” in this prospectus, the production and distribution of medical devices is heavily regulated in the PRC. We expect our industry to become more heavily regulated. For instance, pursuant to “Implementation Rules and Assessment Standards for Adopting GMP Standards for Manufacturing Medical Implants” (《關於印發醫療器械生產質量管理規範植入性醫療器械實施細則和檢查評定標準(試行)的通知》) issued on 16 December 2009, medical device manufacturers will be required to implement previously non-mandatory Good Manufacturing Practices (which both Trauson Jiangsu and Orthmed Changzhou had been certified to be in compliant in November 2007) starting from 1 July 2011 when they apply for product registration certificates, or renewal of their existing product registration certificates. We are of the view that regulations like the compulsory implementation of Good Manufacturing Practices will increase barrier to entry and create better market conditions for participants that focus on quality. At the same time, increased regulations may lead to increased compliance costs.

Additionally, we expect government policies in the PRC and the increased government spending in connection with the PRC healthcare reform, as more fully described in the section headed “Industry Overview — Overview of the PRC healthcare market — Latest healthcare reform plan in the PRC” in this prospectus, will lead to increased medical expenditure and the future growth of our operations. Our products are generally covered under the government medical insurance programmes whereby patients may be able to claim reimbursements for the cost of our products. The reimbursement percentage varies and ranges from below 50% to 100%, depending on the type of surgery and device. In general, reimbursement percentages tend to be higher for domestically manufactured products than for imported products manufactured by international firms. For further information, please see the sections headed “Regulatory Framework — Reimbursement under the National Medical Insurance Programme”, and “Industry Overview — Overview of Chinese orthopaedic device market — Pricing, hospital tender and insurance reimbursement” in this prospectus. However, our business is, in part, dependent on these policies and if China varies its medical insurance reimbursement and other policies in a manner unfavorable to domestic manufacturers, we may face increased competition from foreign manufactured imported products. Please see the section headed “Risk Factors — Risks relating to our business — Our business is subject to intense competition, which may reduce demand for our products and materially and adversely affect our business, financial condition, results of operations and prospects” in this prospectus.

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Product offering and mix

As at the end of the Track Record Period, our product portfolio consisted of 22 trauma products and six lines of spine products. We consider the historic results of our operations to have been affected by the range of our product offerings. During the Track Record Period, our product models have increased from 55 in 2007 to 87 in 2009. Further, we have also increased the number of our product specifications for a number of our product models.

In general, we had extended our product lines over the Track Record Period that incorporate new technology and had improved net profit margins, primarily within our trauma product category. As our portfolio of products expands, we expect our results of operations will continue to benefit. As of the Latest Practicable Date, we have 11 products under development and intend to introduce them to the market in the near to medium future subject to the granting of regulatory approval. The commercialisation of our products under development would increase our sources of revenue. On the other hand, the successful commercialisation of any new products is subject to uncertainties and depends on factors such as whether there are any favourable results of our research and development efforts and our ability to obtain the relevant product registration certificates. If we are not able to successfully introduce new products, our growth and profitability would be adversely affected. Please see the sections headed “Risk Factors — Risks relating to our business — Our prospects are dependent upon the successful commercialisation of new products. If we are unable to successfully develop new products or expand our product line, our business and financial condition may be adversely affected” in this prospectus.

We believe our results of operations, particularly our gross profit margin, may also be affected by changes to the product mix. Historically, new and technological improved products have enjoyed higher gross profit margins.

We intend to continue to adjust our product mix by bringing to market new products to maintain or improve the gross margin of our products as a whole. To the extent we offer new products to the market, the product mix and sources of revenue may be further diversified.

Pricing

The prices of our products directly affect our financial performance. Other than sales to our OEM customer, we sell our products to logistic companies and distributors who then sell our products to hospitals and other customers. During the Track Record Period, prices for our products had remained relatively stable, although extension of new product lines had enabled certain price increases, particularly within our trauma product category.

We sell our products to the distributors at prices set by us, and our distributors in turn sell to the hospitals at such prices as determined by such hospital’s procurement bidding process. Our sales to logistic companies are at a fixed discount to the price we sell to distributors.

At present, the prices at which we sell our products to logistic companies and distributors are not subject to any government price control. Nevertheless, the prices we set for our products are affected by prices determined in hospital procurement bidding auctions and by the prices set by our competitors selling competing products. We counter such pricing pressure with the quality and brand awareness of our products, and by offering to our distributors and surgeons who use our products a range of after-sale services including product training and customer support, staffed by our personnel or representatives from our distributors, to take sale orders and answer any enquiries our distributors or surgeons may encounter when marketing or using our products.

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Distribution network

We believe our results of operations are also significantly affected by the extent of our distribution network and its geographic coverage. The table below sets forth the number of distributors and logistic companies in our distribution network in China and our revenue generated from the domestic market for the dates or periods indicated:

	For the year ended 31 December		
	2007	2008	2009
Number of distributors and logistic companies (as at 31 December).....	277	349	391
Total revenue generated from sales in the PRC (RMB '000).....	108,418	134,342	168,092

As at 31 December 2009, our distribution network covers over 2,500 hospitals in 30 provinces autonomous regions and municipalities. Our strong foothold by review is in the Eastern region of China (including Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian), accounted for more than 40% of our revenue for the year ended 31 December 2009. To further expand our market share, we have begun expanding our local geographic coverage by increasing new distributors in our target regions such as various regions in inner China. Our ability to expand and generate revenue from our distribution network outside of the Eastern region of China will have an impact on our future financial performance.

Staff costs

As a result of the growth of our business, the size of our management team and staff has grown. The table below sets forth a breakdown of our total number of employees by function as at the dates indicated:

Function	As at 31 December		
	2007	2008	2009
Production.....	466	659	644
Management, finance, human resources and regulatory compliance.....	88	83	60
Sales and marketing.....	43	63	59
Research and development.....	26	33	68
Others.....	0	5	9
Total.....	<u>623</u>	<u>843</u>	<u>840</u>

In addition to our growth in size, we have increased compensation for our management and staff over the Track Record Period in response to competitive conditions and to provide our business with quality management and staff. As a result, our total staff costs across all functions have increased over the Track Record Period from RMB20.8 million in 2007 to RMB35.5 million in 2008, and to 41.7 million in 2009.

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Going forward, we expect to continue to grow the size of our staff, and to continue to hire management personnel throughout our organisation at higher levels of compensation. Consequently, we expect our staff costs to continue to grow; however, we believe our investments in management and staff will be offset by the increased revenue associated with these investments in our business.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The discussion and analysis of our financial position and results of operations are based on the combined financial statements prepared in accordance with the significant accounting policies set out in the Accountants' Report. Preparation of our individual and combined financial information requires us to make estimates and judgments in applying certain critical accounting policies which may have a significant impact on our combined results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. Our management has identified below the accounting policies, estimates and judgments that are most critical to our combined financial statements.

Merger accounting for business combinations under common control

The business combinations under common control are accounted for in accordance with merger accounting. In applying merger accounting, financial information relating to the Company as set out in full in Appendix I incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Impairment of trade receivables

When there is objective evidence of impairment of trade receivables, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

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During the Track Record Period, we had insignificant level of impairment losses on trade receivables. We recorded impairment losses on trade receivables of RMB0.8 million, RMB0.7 million and RMB0.6 million for the years ended 31 December 2007, 2008 and 2009, respectively.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, we regularly inspect and review our inventories to identify slow-moving and obsolete inventories. When we identify items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, we would write down inventories in that period.

We recorded a write-down of inventories of RMB4.4 million, RMB4.8 million and RMB0.4 million for the years ended 31 December 2007, 2008 and 2009, respectively.

PRINCIPAL COMBINED STATEMENTS OF COMPREHENSIVE INCOME COMPONENTS

Revenue

Revenue represents the net invoiced value of goods sold after deduction of sales related taxes and allowances for returns and trade discounts provided to our distributors, and elimination of intra-group transactions. We generate revenue primarily from distributing our own brand and OEM orthopaedic products in both the PRC and international markets.

Cost of sales

Cost of sales represents primarily the direct and indirect cost of producing our products.

Other income and other gains and losses

Other income and other gains and losses consist of (i) interest income, (ii) foreign exchange gains and losses, (iii) loss on disposal of property, plant and equipment, (iv) fair value change of held for trading investments and (v) other items.

Distribution and selling expenses

Distribution and selling expenses consist primarily of salaries and staff welfare paid to our distribution and sales staff, their travelling and entertainment expenses, advertising and conferences related, and other expenses.

Administrative and general expenses

Administrative and general expenses consist primarily of salaries and staff welfare paid to our senior management and administrative staff, management's travelling expenses and entertainment expenses, consulting fees, write-down of receivable, and other expenses.

Research and development expenses

Research and development expenses consist primarily of salaries and staff welfare paid to our research and development staff and other research and development expenses.

Other expenses

Other expenses include charitable donation, legal and professional fees incurred for the proposed listing of the Shares and other expenses.

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Interest expense in relation to bank loans wholly repayable within five years

During the Track Record Period, we only had short-term bank loans. Interest expense in relation to bank loans wholly repayable within five years primarily represent interest paid on bank loans.

Share of loss of an associate

Share of loss of associate primarily represents the loss incurred by our associate Duoliang Investment, in which we had a 40% interest. Our 40% interest in Duoliang Investment was disposed of on 8 September 2009.

Income tax credit or expense

Our operating subsidiaries located in the PRC are subject to EIT. On 1 January 2008, the EIT Law became effective. Pursuant to the EIT Law, a uniform income tax rate of 25% was imposed for both domestic and foreign investment enterprises. Under the EIT Law, enterprises that enjoyed a preferential tax rate prior to the EIT Law's promulgation could gradually migrate to the new tax rate over five years from the effective date of the EIT Law (being 1 January 2008). Enterprises that were entitled to a fixed period of tax exemption or reduction prior to the EIT Law's promulgation could continue to enjoy such treatment until such fixed term expires. In addition, the EIT Law provides that dividends distributed from the PRC subsidiaries to offshore group entities shall be subject to the withholding income tax at 20% or a lower tax treaty rate. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5% unless such Hong Kong companies are not regarded as the "beneficial owners" of the PRC companies 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 Taxes on Income" (《內地和香港特別行政區關於對所得避免雙重徵收和防止偷漏稅的安排》). There are no further withholding tax applied by the Hong Kong and British Virgin Islands tax authorities on distributions from our Hong Kong subsidiaries to the Company through our British Virgin Islands incorporated intermediate holding company.

Trauson Jiangsu and Changzhou Orthmed, each being a foreign investment enterprise registered in the PRC, was entitled prior to the EIT Law's promulgation to an exemption from EIT for two years starting from its first profit-making year, followed by a 50% tax relief for the following three years. Trauson Jiangsu was entitled to and enjoyed the first tax exemption year in 2006, and a 50% tax relief for the three years ending 31 December 2010. Orthmed Changzhou was entitled to and enjoyed the first tax exemption year in 2008, and a 50% tax relief for the three years ending on 31 December 2012. The preferential rate for Trauson Jiangsu and Orthmed Changzhou has been grandfathered under the EIT Law. From 1 January 2011, Trauson Jiangsu will be subject to EIT at the rate of 15% if it qualifies as a New and High-tech Enterprise following a review process by the PRC government. From 1 January 2013, Orthmed Changzhou will be subject to EIT at the rate of 15% if it qualifies as a New and High-tech Enterprise following a review process by the PRC government.

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Profit and total comprehensive income and profit margin

Profit for the year and total comprehensive income for the year is calculated as gross profit and other income and other gains and losses minus distribution and selling expenses, administrative and general expenses, research and development expenses, other expenses, interest expense in relation to bank loans wholly repayable within five years, share of loss of an associate and income tax credit (expense).

Profit margin for the year is calculated as the quotient of the profit for the year and total comprehensive income for the year divided by the revenue for the year.

RESULTS OF OPERATIONS

The following table sets forth the combined statements of comprehensive income data for the Track Record Period derived from our combined financial statements set out in the Accountants' Report.

	Year ended 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Revenue	131,582	173,692	211,485
Cost of sales	<u>(54,001)</u>	<u>(58,839)</u>	<u>(62,262)</u>
Gross profit	77,581	114,853	149,223
Other income and other gains and losses	6,638	3,480	1,094
Distribution and selling expenses	(10,474)	(13,822)	(21,431)
Administrative and general expenses	(12,648)	(20,697)	(21,411)
Research and development expenses	(5,133)	(6,516)	(9,710)
Other expenses	(480)	(1,049)	(2,536)
Interest expense in relation to bank loans wholly repayable within five years	(1,364)	(1,179)	(846)
Share of loss of an associate	<u>—</u>	<u>(232)</u>	<u>(322)</u>
Profit before tax	54,120	74,838	94,061
Income tax credit (expense)	<u>1,595</u>	<u>(10,006)</u>	<u>(11,882)</u>
Profit for the year and total comprehensive income for the year	<u>55,715</u>	<u>64,832</u>	<u>82,179</u>
Attributable to owners of the Company	<u>55,715</u>	<u>64,832</u>	<u>82,179</u>

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The table below sets forth our revenue from the operation of each product category as well as the percentage of total revenue it represents for the periods indicated:

	For the year ended 31 December					
	2007		2008		2009	
	RMB '000	%	RMB '000	%	RMB '000	%
Trauma products	86,821	66.0	111,827	64.4	135,417	64.0
Spine products	27,899	21.2	26,640	15.3	31,366	14.8
OEM products	11,575	8.8	27,949	16.1	31,418	14.9
Others	<u>5,287</u>	<u>4.0</u>	<u>7,276</u>	<u>4.2</u>	<u>13,284</u>	<u>6.3</u>
Total	<u>131,582</u>	<u>100.0</u>	<u>173,692</u>	<u>100.0</u>	<u>211,485</u>	<u>100.0</u>

The table below sets forth the gross profit margins by product category for the periods indicated:

	For the year ended 31 December		
	2007	2008	2009
	%	%	%
Trauma products	60.1%	67.3%	73.6%
Spine products	65.5%	82.4%	81.8%
OEM products	36.1%	46.9%	48.8%
Others	56.7%	62.7%	64.7%

Our Directors believe that our Group's gross profit margin levels recorded during the Track Record Period were comparable to a number of orthopaedic product manufacturers.

Financial year ended 31 December 2009 compared to financial year ended 31 December 2008

Revenue

Revenue increased by RMB37.8 million or 21.8% to RMB211.5 million in 2009, as compared to RMB173.7 million in 2008. The increase was primarily due to the growth in sales across all product categories.

Revenue from trauma products increased by RMB23.6 million or 21.1% to RMB135.4 million, which constituted 64.0% of our total revenue for 2009, as compared to RMB111.8 million or 64.4% of our total revenue for 2008. The increase in revenue from trauma revenue was primarily due to volume increases driven by the extension of new product lines, the growth of our distribution network and increased sales and marketing efforts, as well as the growth of the China orthopaedic market as a whole.

Revenue from spine products increased by RMB4.7 million or 17.7% to RMB31.4 million, which constituted 14.8% of our total revenue for 2009, as compared to RMB26.6 million or 15.3% of our total revenue for 2008. The increase was primarily due to an increase in sales and marketing efforts that generated more demand for our spine products, as well as general growth of the market as a whole.

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As at 31 December 2009, we had a total of 391 distributors in China, which represented an increase of 12.0% from 349 distributors as at 31 December 2008.

Revenue for OEM products increased by RMB3.5 million or 12.5% to RMB31.4 million, which constituted 14.9% of our total revenue in 2009, as compared to RMB27.9 million or 16.1% of our total revenue for 2008, primarily due to increased orders placed by our OEM customer.

Revenue from other products increased by RMB6.0 million or 82.2% to RMB13.3 million, which constituted 6.3% of our revenue in 2009, as compared to RMB7.3 million or 4.2% of our total revenue in 2008. The increase was due to an increase in sales of surgical instruments, and an increase in sales of our external fixators which were introduced to the market in late 2008.

Cost of sales

Cost of sales increased by RMB3.4 million or 5.8% to RMB62.3 million in 2009, as compared to RMB58.8 million in 2008. The increase in our cost of sales was primarily due to increased sales volume.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit increased by RMB34.4 million or 29.9% to RMB149.2 million in 2009, as compared to RMB114.9 million in 2008. Our gross profit margin increased to 70.5% for 2009, from 66.1% in 2008.

Gross profit margin for our trauma products improved due to our investments in manufacturing technology improvements that reduced waste of raw materials and enhanced efficiency, as well as economies of scale achieved as a result of volume of sales increases. Gross profit margin for our spine products modestly decreased in 2009 compared to 2008, primarily due to manufacturing technology improvements that enhanced product quality but brought higher production costs. Gross profit margin for our OEM business was relatively stable during 2008 and 2009, as improvements from manufacturing technology were largely offset by a higher-cost product mix and reduced prices for volume purchases. Our overall gross profit margin was also helped by our continuing efforts to adjust our product mix towards more higher-margin products.

Other income and other gains and losses

Other income and other gains and losses decreased by RMB2.4 million to RMB1.1 million in 2009, as compared to RMB3.5 million in 2008. The decrease was primarily due to a decrease in foreign exchange gains of RMB3.2 million as a result of the retranslation to RMB as at 31 December 2009 of amounts due to related parties that are denominated in HK\$.

Distribution and selling expenses

Distribution and selling expenses increased by RMB7.6 million or 55.0% to RMB21.4 million in 2009, as compared to RMB13.8 million in 2008. The increase was primarily due to an increase in advertising and conference expenses relating to the promotion of our products of RMB4.9 million or 127.1% to RMB8.8 million in 2009, as compared to RMB3.9 million in 2008 and an increase in salaries and staff welfare expenses for our sales staff by RMB2.4 million or 53.1% to RMB6.9 million in 2009 as compared to RMB4.5 million in 2008. As at 31 December 2009, we had 59 full-time sales and marketing staff, as compared to 63 as at 31 December 2008.

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The table below sets forth a breakdown of our distribution and selling expenses for the periods indicated:

	For the year ended 31 December	
	2008	2009
	RMB '000	RMB' 000
Salaries and staff benefits	4,482	6,862
Travelling and entertainment	2,090	2,185
Advertising and conference related	3,862	8,767
Others	<u>3,388</u>	<u>3,617</u>
Total	<u>13,822</u>	<u>21,431</u>

Administrative and general expenses

Administrative and general expenses increased by RMB0.7 million or 3.5% to RMB21.4 million in 2009, as compared to RMB20.7 million in 2008. The increase was primarily due to (i) an increase of RMB2.2 million in other expenses primarily attributable to increases in depreciation and amortisation relating to our continued investment in production facilities, plant and machinery equipment to expand and improve the efficiency of our manufacturing and production processes, and office expenses and utilities. The increase was partially offset by a decrease in administrative staff expenses resulting from a reduction of administrative staff expenses due to a reduction in the number of administrative staff following an internal restructure whereby certain administrative staff were re-grouped as research and development staff. As at 31 December 2009, we had 60 full-time administrative staff, as compared to 83 as of 31 December 2008.

The table below sets forth a breakdown of our administrative and general expenses for the periods indicated:

	For the year ended 31 December	
	2008	2009
	RMB '000	RMB '000
Salary and staff welfare	9,922	7,712
Travelling and entertainment	2,461	2,864
Consulting fees	625	1,027
Write down of receivables	699	616
Others	<u>6,990</u>	<u>9,192</u>
Total	<u>20,697</u>	<u>21,411</u>

Research and development expenses

Research and development expenses increased by RMB3.2 million or 49.0% to RMB9.7 million in 2009 compared to RMB6.5 million in 2008. The increase was primarily due to (i) an increase in salaries and staff welfare paid to our research and development staff of RMB1.5 million as a

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result of an increase in research and development headcount following an internal restructure whereby certain administrative staff were re-grouped as research and development staff, as well as additional increases in research and development headcount and compensation and (ii) an increase in other research and development expenses of RMB1.7 million resulting from our continued focus on the development of new products, particularly in the spine product category. As at 31 December 2009, we had 68 full-time research and development staff as compared to 33 as at 31 December 2008.

Other expenses

Other expenses increased by RMB1.5 million to RMB2.5 million in 2009, as compared to RMB1.0 million in 2008. The increase was primarily due to the payment of RMB2.4 million legal and professional fees primarily related to our preparation for the Global Offering.

Interest expenses in relation to bank loans wholly repayable within five years

Interest expenses in relation to bank loans wholly repayable within five years decreased by RMB0.3 million or 28.2% to RMB0.8 million in 2009, as compared to RMB1.2 million in 2008, primarily due to a decrease in outstanding bank loans during 2009.

Share of loss of an associate

Share of loss of associate increased by RMB0.1 million to RMB0.3 million. This loss reflected our 40% holding in the loss-making associate Duoliang Investment. Our entire interest in Duoliang Investment was sold to Mr Qian Fu Qing for RMB11 million on 8 September 2009.

Income tax expense

Income tax expense increased by RMB1.9 million or 18.7% to RMB11.9 million in 2009, as compared to RMB10.0 million in 2008. Our effective tax rate for 2009 and 2008 was 12.6% and 13.4%, respectively. The decrease in effective tax rate was primarily due to an increase in proportion of the taxable income earned by Orthmed Changzhou, which was in the second year of the two year EIT exemption period in 2009, relative to the taxable income earned by our Group. Our other principal operating subsidiary, Trauson Jiangsu, was subject to EIT tax rate at 12.5% in both 2008 and 2009.

Profit for the year and total comprehensive income for the year

As a result of the foregoing factors, our profit increased by RMB17.3 million or 26.8% to RMB82.2 million in 2009, as compared to RMB64.8 million in 2008. Our profit margin increased to 38.9% in 2009 from 37.3% in 2008.

Financial year ended 31 December 2008 compared to financial year ended 31 December 2007

Revenue

Revenue increased by RMB42.1 million or 32.0% to RMB173.7 million in 2008, as compared to RMB131.6 million in 2007. The increase was primarily due to the growth in sales of our trauma products and OEM products.

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Revenue from trauma products increased by RMB25.0 million or 28.8% to RMB111.8 million, which constituted 64.4% of our total revenue for 2008, as compared to RMB86.8 million or 66.0% of our total revenue for 2007. The increase in revenue from trauma products was primarily due to volume increases driven by the growth of our distribution network, as well as general growth of the China orthopaedic market as a whole.

Revenue from spine products decreased by RMB1.3 million or 4.7% to RMB26.6 million in 2009, which constituted 15.3% of our total revenue for 2008, as compared to RMB27.9 million or 21.2% of our total revenue for 2007. The decline in our spine products resulted from a lack of demand for our then current spine products as we prepared to introduce a more complete and technologically up-to-date product line. Consequently, we focused our sales and marketing efforts mostly in our trauma business in 2008.

As at 31 December 2008, we had a total of 349 distributors in China, which represented an increase of 26.0% from 277 distributors as at 31 December 2007.

Revenue from OEM products increased by RMB16.4 million or 141.5% to RMB27.9 million which constituted 16.1% of our total revenue for 2008, compared to RMB11.6 million or 8.8% of our total revenue in 2007. Our OEM revenue increase was driven by the increase of orders placed by our OEM customer. We entered into a long-term supply contract with our OEM customer in 2007, and 2008 represented the first full financial year after we entered into the contract with our OEM customer.

Revenue from other products increased by RMB2.0 million or 37.7% to RMB7.3 million, which constituted 4.2% of our total revenue for 2008, as compared to RMB5.3 million or 4.0% of our total revenue in 2007.

Cost of sales

Cost of sales increased by RMB4.8 million or 9.0% to RMB58.8 million in 2008, as compared to RMB 54.0 million in 2007. The increase in our cost of sales was primarily due to the increased sales volume in 2008.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit increased by RMB37.3 million or 48.0% to RMB114.9 million in 2008, as compared to RMB77.6 million in 2007. Our gross profit margin increased to 66.1% for 2008, from 59.0% in 2007.

Gross profit margin within our trauma products and our spine products improved due to our continued investments in manufacturing technology improvements that reduced waste of raw materials and enhanced efficiency, as well as economies of scale achieved as a result of volume of sales increases in trauma products, OEM products and other products.

Other income and other gains and losses

Other income and other gains and losses decreased by RMB3.1 million or approximately 47.6% to RMB3.5 million in 2008, as compared to RMB6.6 million in 2007. The decrease is primarily due to a decrease in foreign exchange gains of RMB3.3 million to RMB3.2 million in 2008 from RMB6.5 million in 2007 primarily as a result of the retranslation to RMB of amounts due to related parties that are denominated in HK\$.

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Distribution and selling expenses

Distribution and selling expenses increased by RMB3.3 million or 32.0% to RMB13.8 million in 2008, as compared to RMB10.5 million in 2007, primarily due to an increase in salaries and staff welfare expenses by RMB2.0 million or 78.4% to RMB4.5 million in 2008, as compared to RMB2.5 million in 2007 due to both increased headcount and increased compensation levels, and an increase in advertising and conference expenses relating to the promotion of our products by RMB0.6 million or 20.0% to RMB3.9 million in 2008 as compared to RMB3.2 million in 2007. As at 31 December 2008, we had 63 full-time sales and marketing staff, as compared to 43 as at 31 December 2007.

The following table sets forth a breakdown of our distribution and selling expenses for the periods indicated:

	For the year ended 31 December	
	2007	2008
	RMB '000	RMB' 000
Salary and staff welfare	2,513	4,482
Travelling and entertainment	1,802	2,090
Advertising and conference related	3,219	3,862
Others	2,940	3,388
Total	10,474	13,822

Administrative and general expenses

Administrative and general expenses increased by RMB8.0 million or 63.6% to RMB20.7 million in 2008 compared to RMB12.6 million in 2007. The increase was primarily due to (i) an increase in salaries and welfare expenses by RMB2.7 million driven by increased headcount of our core administrative personnel, increased salary paid and contribution to the government retirement benefits funds for administrative staff, (ii) an increase of travelling and entertainment expenses by RMB1.8 million which primarily related to senior management's marketing efforts and oversight of the sales and marketing teams and (iii) an increase of RMB3.0 million of other administrative expenses mainly attributable to depreciation and amortisation relating to our continued investment in equipment to improve the efficiency of our manufacturing and production process, and office expenses and utilities.

As at 31 December 2008, we had 83 full-time administrative staff, as compared to 88 as at 31 December 2007 after we outsourced the functions of certain non-core administrative staff.

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The table below sets forth a breakdown of our administrative and general expenses for the periods indicated:

	For the year ended 31 December	
	2007	2008
	RMB '000	RMB '000
Salary and staff welfare	7,242	9,922
Travelling and entertainment	702	2,461
Consulting fees	—	625
Receivable write-down cost	804	699
Others	3,900	6,990
Total	12,648	20,697

Research and development expenses

Research and development expenses increased by RMB1.4 million or 26.9% to RMB6.5 million in 2008 compared to RMB5.1 million. The increase was primarily due to an increase in salaries and staff welfare paid to our research and development staff by RMB2.6 million, which was partially offset by a decrease in other research and development expenses of RMB1.2 million primarily as a result of capitalising certain research and development costs that had been expensed in prior periods with respect to products whose development had become sufficiently advanced to warrant capitalisation.

As at 31 December 2008, we had 33 full-time research and development staff, as compared to 26 as of 31 December 2007.

Other expenses

Other expenses increased by RMB0.6 million to RMB1.0 million in 2008, as compared to RMB0.5 million in 2007, primarily due to an increase in charitable donation we made to the victims of the 8.0 Ms earthquake in Sichuan in 2008.

Interest expenses in relation to bank loans wholly repayable within five years

Interest expenses in relation to bank loans wholly repayable within five years decreased by RMB0.2 million or 13.6% to RMB1.2 million in 2008 compared to RMB1.4 million in 2007, due to a decrease in outstanding bank loans during 2008.

Share of loss of associate

In 2008, we recorded a share of loss of associate of RMB0.2 million, which was attributable to our 40% shareholding in Duoliang Investment. Duoliang Investment was majority owned by our chairman and we acquired a 40% in Duoliang Investment in 2008.

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Income tax credit (expense)

Income tax expense was RMB10.0 million in 2008 compared to a tax credit of RMB1.6 million in 2007. Our effective tax rate for 2008 was 13.4%. The increase was primarily because neither Trauson Jiangsu nor Orthmed Changzhou was subject to EIT in 2007. Trauson Jiangsu was in the second year of its full EIT exemption period in 2007, and it enjoyed the reduced EIT rate of 12.5% in 2008. Orthmed Changzhou was in the first year of the two year full EIT exemption period in 2008.

Profit for the year and total comprehensive income for the year

As a result of the foregoing factors, our profit increased by RMB9.1 million or 16.4% to RMB64.8 million in 2008, as compared to RMB55.7 million in 2007. Our profit margin reduced to 37.3% in 2008 from 42.3% in 2007. This reduction was primarily due to taxes paid and an increase in administrative and general expenses in excess of the relative increase in our revenues in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations principally through a combination of cash generated from our operations and bank borrowings. Our principal liquidity and capital requirements are to satisfy costs and expenses related to the operation of our business and capital expenditures for our business development including purchases of new machinery to upgrade obsolete equipment and improve our manufacturing technology and expand production capacity, and investments in new businesses.

The following table is a condensed summary of our combined statements of cash flows for the periods indicated:

	Year ended 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Operating activities			
Net cash from operating activities	54,022	63,609	78,586
Investing activities			
Net cash used in investing activities.	(17,665)	(50,400)	(47,897)
Financing activities			
Net cash used in financing activities	(27,282)	(9,286)	(1,759)
Net increase in cash and cash equivalents	9,075	3,923	28,930
Cash and cash equivalents at beginning of year	16,466	25,541	29,464
Cash and cash equivalents at end of year, represented by bank balances and cash	25,541	29,464	58,394

Cash flow from operating activities

During the Track Record Period, our cash provided by operating activities was generated primarily from the proceeds of the sale of our products. Our cash used in operating activities primarily related to amounts we paid for our manufacturing activities.

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Operating activities

Our cash from operating activities reflects profit before taxation for the year, adjusted for (i) non-cash items such as depreciation of property, plant and equipment, write-down of inventories, and impairment losses on trade receivables and share of loss of an associate; (ii) the effect of changes in working capital, such as increases or decreases in inventories, trade and other receivables, trade and other payables, and amounts due to and from related parties of a trading nature; and (iii) income taxes paid.

For 2009, net cash from operating activities was RMB78.6 million. This was primarily due to profit before tax of RMB94.1 million and an increase of RMB2.7 million in trade and other payables, offset in part by an increase in trade and other receivables of RMB19.0 million. The increase in trade and other receivables was primarily due to the longer credit terms granted to an increasing number of our customers that had developed stable business relationship with the Group in prior years, as well as to encourage market penetration for our extended product lines.

For 2008, net cash from operating activities was RMB63.6 million. This was primarily due to profit before tax of RMB74.8 million, and an increase of RMB14.5 million in trade and other payables, offset in part by an increase of RMB24.8 million in trade and other receivables and increase in inventory of RMB9.3 million. The increase in trade and other payables resulted from the increase in purchases made to meet with the production need of our expanded operations. Increase in trade and other receivables was again due to the longer credit terms granted to an increasing number of customers that had developed stable business relationship with the Group in prior years, as well as to encourage market penetration for our extended product lines. The increase in inventories was mainly due to the increase in work-in-progress to meet the increase in sales demand.

For 2007, net cash from operating activities was RMB54.0 million, primarily due to our profit before taxation of RMB54.1 million, a decrease in inventories RMB7.8 million, offset in part by a RMB6.9 million decrease in trade and other payables and a RMB11.5 million increase in trade and other receivables. The decrease in inventories in 2007 was mainly due to better production plan management. Increase in trade and other receivables was again due to the longer credit terms granted to an increasing number of customers that had developed stable business relationship with the Group, as well as to encourage market penetration for our extended product lines. The decrease in trade and other payables in 2007 resulted from a decrease in advances from customers as we began shipping products in advance of payment to an increasing number of customers with whom we developed stable relationships in prior years.

Investing activities

Our cash used in investing activities primarily consists of payments for the acquisition of property, plant and equipment, payments for land use rights, pledged bank deposits, deposits for property, acquisition of interests in an associate, and advances to related parties and shareholders.

For 2009, net cash used in investing activities was RMB47.9 million. This was primarily due to acquisition of property, plant and equipment of RMB22.0 million primarily relating to production facilities, plant and machinery equipment to expand and improve the efficiency of our production and manufacturing processes, acquisition of land use rights and development costs relating to

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Trauson Jiangsu's new production facility in Wujin Hi-Tech Zone in Jiangsu Province, and advances to Duoliang Investment and Fully Creation Investment Limited of an aggregate of RMB13.9 million. Cash used in investing activities in 2009 was offset in part by a cash inflow of RMB11.0 million from disposal of our 40% interest in Duoliang Investment.

For 2008, net cash used in investing activities was RMB50.4 million. This was primarily due to acquisition of property, plant and equipment of RMB23.8 million primarily relating to production facilities, plant and machinery equipment to expand and improve the efficiency of our production and manufacturing processes, our acquisition of a 40% interest in Duoliang Investment, of RMB11.0 million, deposits for land use rights of RMB9.0 million relating to the site in Wujin Hi-Tech Zone District in Jiangsu Province for Trauson Jiangsu's new production facility, and advances mainly to Duoliang Investment of RMB8.1 million. Cash used in investing activities in 2008 was offset in part by a cash inflow of RMB1.4 million repayment from a shareholder.

For 2007, net cash used in investing activities was RMB17.7 million. This was primarily due to acquisition of property, plant and equipment of RMB10.9 million primarily relating to production facilities, plant and machinery equipment to expand and improve the efficiency of our production and manufacturing processes, as well as advances to Plusrite Electric (Jiangsu) Co Ltd of RMB5.9 million and advances to shareholder of RMB1.2 million.

Financing activities

Our cash from financing activities primarily consists of proceeds from short-term bank loans and advances from our shareholders. Our cash used in financing activities primarily consists of repayment of short-term bank loans and repayment of advances from shareholders.

For 2009, net cash used in financing activities was RMB1.8 million. This was primarily due to repayment short-term bank loans of RMB80.0 million, offset in part by RMB70.0 million in new short-term bank borrowings and advances from related parties of RMB8.6 million.

For 2008, net cash used in financing activities was RMB9.3 million. This was primarily due to repayment short-term bank loans of RMB30.0 million and an advance to our shareholder of RMB3.1 million, offset in part by RMB25.0 million in new short-term bank borrowings.

For 2007, net cash used in financing activities was RMB27.3 million. This was primarily due to repayment short-term bank loans of RMB52.9 million, advance to related parties of RMB8.4 million and an advance to our shareholder of RMB7.8 million, offset in part by RMB42.9 million in new short-term bank borrowings.

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INDEBTEDNESS

Borrowings

As at 30 April 2010, being the latest practicable date for the purpose of the indebtedness statement, we had total borrowings of RMB90.7 million, which comprised of bank borrowings of RMB30.0 million, amount due to a related party of RMB8.6 million and amount due to a shareholder (being Ms Xu) of RMB52.1 million. As at 30 April 2010, we had RMB79.0 million available under undrawn bank credit facilities. The following table sets forth our borrowings as at the dates indicated:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
Secured short-term bank borrowings . . .	15,000	10,000	—	—
Unsecured short-term bank borrowings . . .	—	—	—	30,000
Amount due to a related party	—	—	8,585	8,570
Amount due to a shareholder	<u>56,339</u>	<u>53,232</u>	<u>52,713</u>	<u>52,100</u>
Total borrowings	<u>71,339</u>	<u>63,232</u>	<u>61,298</u>	<u>90,670</u>

The unsecured short-term borrowings of RMB30.0 million outstanding as at 30 April 2010 were guaranteed by our chairman and Ms Xu. The guarantees provided by our chairman and Ms Xu were subsequently released on the Latest Practicable Date. As at 30 April 2010, we had amount due to a related party of non-trading nature of RMB8.6 million and amount due to a shareholder (being Ms Xu) of RMB52.1 million. These balances were subsequently settled before the Latest Practicable Date.

Contingent liabilities

As at 30 April 2010, we had contingent liabilities of RMB2.4 million associated with the outstanding litigation cases in the PRC in which we were being sued for damages suffered as a result of alleged unsatisfactory orthopaedic operations involving different products of our Group or other losses related to the use of our products. For further details related to our legal proceedings, please refer to the section headed “Business — Legal compliance and proceedings — Legal proceedings” in this prospectus.

Gearing ratio

	As at 31 December		
	2007	2008	2009
Gearing ratio (note)	39.7%	24.7%	18.1%

Note: The gearing ratio represents the ratio of our Group’s total borrowings to total assets as at 31 December 2007, 2008 and 2009, respectively.

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Our Group had generated operating cashflow sufficient to meet our capital expenditure requirements for the expansion of our operations during the Track Record Period. As a result, the gearing ratios were controlled at a low level and was reducing during the Track Record Period.

Save as disclosed above, as at 30 April 2010, being the latest practicable date for the purpose of the indebtedness statement, we did not have any debt securities issued and outstanding and authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits, hire purchase commitments, mortgages, charges, other material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2009, we did not have any off-balance sheet arrangements.

CAPITAL EXPENDITURES

Our capital expenditures are incurred primarily in connection with the expansion of our business operations and primarily consist of purchases of property, plant and equipment for our production facilities, and deposits and other payments for land leases (land use rights) for our production facilities. Our capital expenditures for 2007 were RMB10.9 million, which were incurred for acquisition of property, plant and equipment. Our capital expenditures for 2008 were RMB32.8 million, which primarily represented deposit paid for the acquisition of the site at 9 Longmen Road, Wujin Hi-Tech Zone in Jiangsu Province for Trauson Jiangsu's new production facility of RMB9.0 million and acquisition of property, plant and equipment of RMB23.8 million. Our capital expenditures for 2009 were RMB44.3 million, which primarily represented capital expenditure in respect of the acquisition of property, plant and equipment of RMB22.0 million and payments for land use rights of RMB22.3 million.

COMMITMENTS

As at 31 December 2009, we had RMB3.1 million of capital commitments for the construction of the new production facility of Trauson Jiangsu, related decoration and fitting expense and acquisition of plant and equipment.

INVENTORY ANALYSIS

The following table sets forth, as of the dates indicated, our inventory positions and the inventory turnover days for the periods indicated:

	As at 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Raw materials	12,151	13,000	14,539
Work-in-progress	6,847	13,627	15,517
Finished goods	20,164	16,997	13,501
	<u>39,162</u>	<u>43,624</u>	<u>43,557</u>

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	For the year ended 31 December		
	2007	2008	2009
	days	days	days
Inventory turnover days ⁽¹⁾	302	253	252

Note:

- (1) The inventories turnover days were calculated using the average of the beginning and ending inventory balances of the year, divided by costs of sales for the year and multiplied by 360 days in respect of the years indicated.

We maintain inventory at a level that is able to meet demand from distributors and the OEM customer. Generally, we currently maintain inventory of raw materials for approximately three months' production consumption, and inventory of finished goods for approximately four months' volume of sales. Our level of inventory of raw material maintained is mainly attributed to our practice to purchase raw materials in bulk in order to obtain better pricing. Also, in respect of raw materials ordered from overseas suppliers, we tend to maintain a higher level of inventory in view of the time lag between the order and the delivery to ensure that our production will not be affected by shortage of such raw material. Our products are manufactured in a range of specifications. We manufacture those products with standard specifications each month as they are sold more regularly. Other products with less common or non-standard specifications are produced on rotation once every two to three months.

The demand for orthopaedic products is based on surgical needs. Our distributors and, in turn, we, as the manufacturer, seek to timely provide requisite products to the hospitals and patients. Consequently, we need to maintain a certain level of inventory of our products of all specifications due to the uncertainty as to the timing of the surgery, the type of the surgery, the shape and extent of the body damage, and the physical condition of the patient. Our Directors are of the view that it is vital to service and satisfy the needs of both our distributors and our hospital customers on a just in time and most efficient basis.

Typically, our production process will involve various steps including production planning, delivery of raw materials, initial production preparation, detailed processing, later stage processing, inscription, cleaning and packaging, issue of final examination report and despatch of finished products for warehousing. For a detailed description of our production process, please refer to the section headed "Business — Production process — Flowchart of production process" in this prospectus. As such, depending on the complexity of production processes, our Group's production cycle ranges from approximately 30 to 70 days.

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method. We assign specific personnel to monitor slow moving inventories, where the persons-in-charge regularly inspect and review our inventories to identify slow-moving and obsolete inventories. When we identify items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, we write down such inventories in that period. As at 31 December 2009, inventories aged above one year amounted to approximately RMB7.5 million. Inventories aged over one year were mainly attributable to raw materials held by

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us. These raw materials aged over one year were previously purchased in bulk in order to obtain higher discounts from suppliers. We plan to utilise these raw materials in production during the course of 2010. As at 30 April 2010, approximately RMB23.6 million, representing 54.1% of our inventory as at 31 December 2009 had been subsequently utilised (in case of raw materials and work-in-progress) or sold (in case of finished goods). As at 31 December 2007, 2008 and 2009, upon considering the age and future usage or sales of the inventories, the write-down of inventories to net realisable value was approximately RMB4.4 million, RMB4.8 million and RMB0.4 million, respectively.

Our inventories remained relatively stable at RMB43.6 million as at 31 December 2008 and 2009. However, inventory of finished goods decreased by 20.6% from RMB17.0 million as at 31 December 2008 to RMB13.5 million as at 31 December 2009 primarily as a result of our manufacturing technology improvements that enhanced efficiency and reduced our production time, which, in turn, reduced the level of inventory we are required to maintain. Inventory of work-in-progress increased by RMB1.9 million or 13.9% as at 31 December 2009 compared to as at 31 December 2008 primarily as a result of expansion of our business. Inventory of raw materials increased by RMB1.5 million or 11.5% as at 31 December 2009, as compared to as at 31 December 2008 primarily as result of the increase in our raw material purchase in bulk to obtain better pricing.

Our inventories increased by 11.4% from RMB39.2 million as at 31 December 2007 to RMB43.6 million as at 31 December 2008. Inventory of work-in-progress increased by 100.0% or RMB 6.8 million as at 31 December 2008, as compared to as at 31 December 2007, primarily as a result of the expansion of our business. Inventory of finished goods decreased by 15.8% or RMB 3.2 million as at 31 December 2008, as compared to 31 December 2007, primarily as a result of our manufacturing technology improvements that enhanced efficiency and reduced our production time, which, in turn, reduced the level of inventory we are required to maintain. Inventory of raw materials increased by 6.6% or RMB0.8 million as at 31 December 2008, as compared to 31 December 2007, primarily as a result of the increase in our raw material purchase in bulk to obtain better pricing.

Inventory turnover days of the Group decreased from 302 days in 2007 to 253 days in 2008, while remaining relatively stable at 252 days in 2009. The decline in inventory turnover days in 2008, as compared to 2007, was mainly due to the shortening of our production cycle as a result of production efficiency improvement and a reduction of raw material inventory levels by implementing better managed production plans.

Generally, the inventory turnover days of the Group are consistent with our understanding of the industry norm. Trauma products (which accounts for a majority of the Group's revenue during the Track Record Period) are mainly used by hospitals operating on patients in emergency operations. Our distributors and, thus, our Group have to maintain large volumes of inventories in a variety of models and specifications in order to meet the needs of our hospital customers.

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TRADE AND OTHER RECEIVABLES ANALYSIS

The following table sets forth, as of the dates indicated, our trade and other receivables positions and the trade receivables turnover days for the periods indicated:

	As at 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Trade receivables	21,220	46,521	55,289
Less: Allowance for doubtful debts	(804)	(1,503)	(2,119)
	<u>20,416</u>	<u>45,018</u>	<u>53,170</u>
Advance to suppliers	2,369	1,818	12,240
Other receivables	2,955	3,138	2,324
Deposits	1,699	1,650	1,433
Prepaid expenses	542	428	173
	<u><u>27,981</u></u>	<u><u>52,052</u></u>	<u><u>69,340</u></u>
	For the year ended 31 December		
	2007	2008	2009
	days	days	days
Trade receivables turnover days ⁽¹⁾	45	68	84

Note:

(1) The trade receivables turnover days were calculated using the average of the beginning and ending trade receivable balances (less allowance for doubtful debts) of the period, divided by revenue for the year and multiplied by 360 days in respect of the years indicated.

Trade and other receivables increased by RMB17.3 million or 33.2 % to RMB69.3 million as at 31 December 2009, as compared to RMB52.1 million as at 31 December 2008 corresponding to the increase in our revenue for the same period, and further increased by higher levels of advances to suppliers resulting from pre-payments for purchases of higher-quality raw materials that enabled us to obtain better pricing while improving the quality of our products.

Trade and other receivables increased by RMB24.1 million or 86.0% to RMB52.1 million as at 31 December 2008, as compared to RMB28.0 million as at 31 December 2007 primarily due to an increase in net trade receivable corresponding to the increase in our revenue for the same period.

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Our Group allows credit period ranging from 0 to 90 days and, in some cases, longer periods to major customers, depending on their trading relationship, by not demanding immediate payments upon expiry of credit terms. The ageing of trade receivables, net of allowance for doubtful debts as at the end of the period during the Track Record Period, was as follows:

	As at 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
0 to 90 days	15,371	35,513	39,460
91 to 180 days	3,059	2,712	6,871
181 to 360 days	1,911	5,359	5,294
Over 360 days	75	1,434	1,545
	20,416	45,018	53,170

As at 30 April 2010, approximately RMB32.8 million, representing 61.7%, of our trade receivables (net of allowance for doubtful debts) of RMB53.2 million outstanding as at 31 December 2009 had been settled. Historically, our Group had experienced slower collection of trade receivables from distributors and logistic companies in the first quarter of the calendar year, which our Directors believe is due to the Chinese New Year festivity during which period distributors and logistic companies tend to face tighter cash flows. We expect such trend to recur in the future.

Included in the outstanding receivables are overdue balances of RMB5.0 million, RMB9.5 million and RMB13.7 million as at 31 December, 2007, 2008 and 2009, respectively, of which we had reviewed the credit quality of each receivable balance. We do not foresee any collection problems on these overdue balances.

Our trade receivables turnover days were 45 days, 68 days and 84 days for 2007, 2008 and 2009, respectively. The increasing trend of trade receivables is mainly due to the longer credit terms granted to major customers as they built up longer and stable business relationships with us during the Track Record Period. The longer credit terms were granted to encourage these customers to penetrate into more new hospitals to use our products and to enhance our long-term business relationship with them. Longer credit terms reduce the working capital requirements of the relevant distributors, enabling them to use their existing working capital to carry additional inventory which, in turn, enables them to sell to additional hospitals and generate additional sales. As such, a portion of the outstanding receivables age more than 90 days.

We review the ageing of our outstanding accounts receivable regularly and perform specific review on overdue balances. Specific provision is made to those overdue balances that are identified with uncertainty of collection. Our Group has recorded impairment loss on account receivables of RMB0.8 million, RMB0.7 million and RMB0.6 million for 2007, 2008 and 2009, respectively.

Included in the Group's trade receivables are overdue receivables with carrying amounts of RMB5.0 million RMB9.5 million and RMB13.7 million as at 31 December 2007, 2008 and 2009, respectively, for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable.

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TRADE AND OTHER PAYABLES ANALYSIS

The following table sets forth, as of the dates indicated, our trade and other payables positions and the trade payables turnover days for the periods indicated:

	As at 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
Trade payables	7,520	10,358	8,900
Advance from customers	3,833	7,695	7,090
Payroll payables	4,667	8,554	8,612
Accrued expenses	3,179	5,241	7,248
Other tax liabilities	1,682	3,521	3,836
Other payables	968	983	1,025
	<u>21,849</u>	<u>36,352</u>	<u>36,711</u>
	For the year ended 31 December		
	2007	2008	2009
	days	days	days
Trade payables turnover days ⁽¹⁾	59	55	56

Note:

(1) The trade payable turnover days were calculated using the average of the beginning and ending trade payables of the period, divided by costs of sales for the year and multiplied by 360 days in respect of the years indicated.

Trade and other payables increased by RMB0.4 million or 1.0% to RMB36.7 million as at 31 December 2009, as compared to RMB36.4 million as of 31 December 2008.

Trade and other payables increased by RMB14.5 million or 66.4% to RMB36.4 million as at 31 December 2008, as compared to RMB21.8 million as of 31 December 2007. The increase was primarily due to an increase in trade payables driven by increase in purchase of raw materials as a result of increase in sales and increase in the cost of the raw material purchased as a result of purchases of higher quality raw materials, an increase in advance from customers driven by an increase in bonus payable to distributors on achievement of sales target to be paid in kind and an increase in payroll payable primary driven by our payment to various social security funds for the benefit of our staff.

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Trade and other payables were RMB21.8 million as at 31 December 2007.

Trade payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the time when the goods received from or services are rendered by suppliers. The ageing of trade payables is as follows:

	As at 31 December		
	2007	2008	2009
	RMB '000	RMB '000	RMB '000
0 to 90 days	6,736	7,072	8,237
91 to 180 days	335	1,335	142
181 to 360 days	296	1,732	401
Over 360 days	153	219	120
	7,520	10,358	8,900

Trade payable turnover days of our Group were 59 days, 55 days and 56 days for 2007, 2008 and 2009, respectively. We have maintained our trade payable turnover at a stable level by utilising the credit terms granted by our suppliers.

The advances received from customers outstanding at each of the balance sheet dates were all trading in nature. We have a standing practice to request new customers or customers which we believe with high credit risks to make prepayment based on a percentage of the purchase price before we arrange delivery of the sales orders. Further, some of our customers have slight excessive payments made to us when settling their outstanding balances. These excessive payments would be applied to off-set delivery of future orders.

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NET CURRENT ASSETS

The following table sets forth the net current assets as at the dates indicated:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB '000	RMB '000	RMB '000	RMB '000 <i>(unaudited)</i>
Current assets				
Inventories	39,162	43,624	43,557	44,812
Trade and other receivables	27,981	52,052	69,340	99,404
Amounts due from related parties	5,903	15,022	37,485	26,768
Amounts due from a shareholder	3,150	1,730	—	—
Prepaid lease payments	119	119	432	432
Held for trading investments	30	12	—	—
Bank balances and cash	<u>25,541</u>	<u>29,464</u>	<u>58,394</u>	<u>95,306</u>
	101,886	142,023	209,208	266,722
Land use rights classified as held for sale . . .	<u>—</u>	<u>—</u>	<u>14,988</u>	<u>—</u>
	<u>101,886</u>	<u>142,023</u>	<u>224,196</u>	<u>266,722</u>
Current liabilities				
Trade and other payables	21,849	36,352	36,711	37,533
Dividends payable	—	—	—	13,441
Amounts due to related parties	501	401	9,377	8,851
Amount due to a shareholder	56,339	53,232	52,713	52,106
Income tax payable	—	2,695	3,199	1,004
Short-term bank loans	<u>15,000</u>	<u>10,000</u>	<u>—</u>	<u>30,000</u>
	<u>93,689</u>	<u>102,680</u>	<u>102,000</u>	<u>142,935</u>
Net current assets	<u><u>8,197</u></u>	<u><u>39,343</u></u>	<u><u>122,196</u></u>	<u><u>123,787</u></u>

Our net current assets increased from RMB122.2 million as at 31 December 2009 to RMB123.8 million as at 30 April 2010. The increase was primarily due to an increase in trade and other receivables of RMB30.1 million, partially offset by an increase of RMB13.4 million of dividends payable. The dividends was subsequently paid in May 2010. Our bank balances and cash as at 30 April 2010 increased by RMB36.9 million compared to the balance as at 31 December 2009 primarily due to the proceeds of the RMB30 million short-term bank loan we drew down in April 2010. The amount due from related parties of non-trading nature of RMB26.8 million outstanding as at 30 April 2010 was subsequently repaid before the Latest Practicable Date. The amounts due to a related party of non-trading nature of RMB8.6 million and the amount due to a shareholder (being Ms Xu) of non-trading nature of RMB52.1 million outstanding as at 30 April 2010 were subsequently settled before the Latest Practicable Date. Our net current assets increased from RMB8.2 million as at 31 December 2007 to RMB39.3 million as at 31 December 2008 and further increased to RMB122.2 million as at 31 December 2009. The increase as at 31 December 2009 compared to 31 December 2008 was primarily due to an increase in our bank balances and cash of

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RMB28.9 million derived primarily from the growth of our business and an increase of RMB22.5 million in the balance of the amounts due from related parties. The increase in the amounts due from related parties was largely attributable to RMB27.8 million due from Fully Creation Investment Limited (“Fully Creation”), a company wholly owned by our chairman, comprised of consideration of HK\$11 million payable for the acquisition by Fully Creation of the equity interests in Trauson Liyang from our Group in 2009 and other advances we provided to Fully Creation during 2009, and which remained outstanding as at 31 December 2009. Our net current assets as at 31 December 2009 was further increased by a reduction of our short-term bank loan in 2009 to nil at the year end. The increase as at 31 December 2008 compared to 31 December 2007 primarily reflected the expansion of our business and was primarily due to an increase in our trade and accounts receivable of RMB24.1 million and an increase of RMB9.1 million in the balance of the amounts due from related parties. The increase in the amount due from related parties was primarily attributable to an advance to Duoliang Investment which remained outstanding as at 31 December 2008.

Our net current assets were RMB123.8 million as at 30 April 2010, being the latest practicable date for determining our net current assets.

RELATED PARTY TRANSACTIONS

Our Directors have confirmed that all related party transactions during the Track Record Period as set out in note 34 to the Accountants’ Report were conducted on normal commercial terms.

MARKET RISKS

We are exposed to various types of market risks, including liquidity risks, credit risks, and foreign exchange risks in the normal course of business.

Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. Our financing activities are managed centrally by seeking to maintain an adequate level of cash and cash equivalents to finance our operations. We also seek to ensure the availability of bank credit facilities to address any short term funding requirements.

Our cash and cash equivalents are placed with reputable financial institutions.

Credit risk

Credit risk arises mainly from the risk that counterparties may default on the terms of their agreements. The carrying amounts of bank balance and cash, trade and other receivables and held for trading investments represent our maximum exposure to credit risk in relation to financial assets.

We monitor the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis. We believe the credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

As at 31 December 2007, 2008 and 2009, our Group has no significant concentration of credit risk in respect of our trade receivables with exposure spread over a number of distributors in China. For further information on our exposure to credit risk, please refer to note 5 to the Accountants’ Report.

FINANCIAL INFORMATION

Foreign exchange risk

Our financial results can be affected by changes in exchange rates between Renminbi and other currencies, particularly the US dollar. The value of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC and international political and economic conditions and the PRC government's fiscal policies. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. The official exchange rate for the conversion of Renminbi to US dollars generally remained stable during the past decade. On 21 July 2005, the PRC government started to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Our sales to our OEM customer, our largest customer in each of the financial year during the Track Record Period, are in US dollars and accordingly any appreciation of the Renminbi against the US dollar could affect in our revenue. Further, any appreciation of the Renminbi against the US dollar or any other foreign currencies may result in a decrease in the Renminbi-equivalent value of our foreign currency-denominated assets, including our proceeds from the Global Offering.

Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our shares in foreign currency terms. In order to reduce the risk of currency fluctuations, we may, as we deem appropriate, enter into derivatives contracts to hedge actual transactions for larger contracts or generally. We have not engaged in any foreign currency hedging activities as at the date of this prospectus.

Capital management

The primary objective of our capital management is to ensure that members of our Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. We manage our capital structure and make adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the Track Record Period.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on our net tangible assets as at 31 December 2009 as if it had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of our Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our net tangible assets had the Global Offering been completed as at 31 December 2009 or at any future date.

FINANCIAL INFORMATION

The unaudited pro forma adjusted combined net tangible assets are calculated based on our audited combined net assets attributable to equity holders of our Company as at 31 December 2009, as shown in the Accountants' Report and is adjusted as described below.

	Audited consolidated net tangible assets of the Group as at 31 December 2009 attributable to the owners of the Company⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company per Share	
	RMB'000	RMB'000	RMB'000	RMB⁽³⁾	HK\$⁽⁴⁾
Based on an Offer Price of HK\$2.38 per Share	<u>233,370</u>	<u>362,037</u>	<u>595,407</u>	<u>0.79</u>	<u>0.91</u>
Based on an Offer Price of HK\$3.57 per Share	<u>233,370</u>	<u>550,420</u>	<u>783,790</u>	<u>1.05</u>	<u>1.19</u>

Notes:

- (1) The audited consolidated net tangible assets of the Group as at 31 December 2009 attributable to the owners of the Company represents the net assets less intangible assets of the Group as set out in the accountants' report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering, translated at RMB0.875 to HK\$1.000, are based on 187,500,000 new Shares at the Offer Price of HK\$2.38 and HK\$3.57 after deduction of the underwriting fees and the other related expenses payable by us. They do not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the Issue Mandate or the Repurchase Mandate.
- (3) The unaudited pro forma adjusted net tangible assets of the Group as at 31 December 2009 attributable to the owners of the Company per Share is based on 750,000,000 Shares expected to be in issue immediately following completion of the Global Offering. It does not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the Issue Mandate or the Repurchase Mandate.
- (4) The unaudited pro forma adjusted net tangible assets per Share amount in RMB are converted to HK\$ with exchange rate at RMB0.875 to HK\$1.000.
- (5) The unaudited pro forma adjusted net tangible assets of the Group does not take into account a dividend of US\$2.0 million (equivalent to approximately RMB13.4 million) declared by Trauson Hong Kong on 8 March 2010 which was paid to its then shareholder, Ms Xu in May 2010.
- (6) The property interests of the Group as at 30 April 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. By comparing the valuation of the Group's property interests of approximately RMB111.1 million as set out in Appendix IV to this prospectus and the unaudited carrying amounts of these properties of approximately RMB66.1 million as at 30 April 2010, the valuation surplus is approximately RMB45 million, which has not been included in the above net tangible assets of the Group. The revaluation surplus will not be incorporated in the Group's consolidated financial statements. If the revaluation surplus was recorded in the Group's consolidated financial statements, the annual depreciation of the Group would be increased by approximately RMB1.1 million.

FINANCIAL INFORMATION

DIVIDEND POLICY

Subject to the Cayman Companies Law, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any shareholder or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which our Board may deem relevant.

Our future dividend payments to our Shareholders will also depend upon the availability of dividends declared and distributed by our subsidiaries in the PRC. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles, which differ in many aspects from HKFRS. PRC laws also require enterprises located in the PRC to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

Any dividends on the Shares will be declared and paid in Hong Kong dollars on a per Share basis. Any final dividend for a financial year will be subject to our shareholders' approval.

Our future dividend policy is that approximately 25% to 30% of our profits available for distribution will be recommended for distribution for each financial year. The amount of dividends actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year.

Our Company did not declare any dividends for each of the years ended 31 December 2007, 2008 and 2009. On 8 March 2010, Trauson Hong Kong declared dividends of US\$2.0 million to its then sole shareholder Ms Xu, and the dividends were paid in May 2010.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

Our Company was incorporated after 31 December 2009, being the end of the period reported on by the Reporting Accountant in the Accountant's Report. Accordingly, our Company did not have any distributable reserves as at 31 December 2009.

WORKING CAPITAL

Taking into account cash from operating activities and the net proceeds from the Global Offering, our Directors are of the opinion that the working capital available to our Group is sufficient for our requirements for at least 12 months from the date of this prospectus.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

In the absence of any unforeseen circumstances and on the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus, certain forecasted data for our Group for the six months ending 30 June 2010 are set out below:

Forecasted consolidated profit for the six months
ending 30 June 2010 attributable to
the owners of our Company⁽¹⁾⁽²⁾not less than RMB34 million
(equivalent to approximately HK\$39 million)

Unaudited pro forma forecasted earnings per Share
for the six months ending 30 June 2010⁽³⁾not less than RMB0.05
(equivalent to approximately HK\$0.05)

Notes:

- (1) Our forecasted consolidated profit for the six months ending 30 June 2010 attributable to the owners of our Company is extracted from the section headed "Financial Information — Profit forecast for the six months ending 30 June 2010" in this prospectus. The bases and assumptions on which the above profit forecast for the six months ending 30 June 2010 have been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the forecasted consolidated profit for the six months ending 30 June 2010 attributable to the owners of our Company based on the unaudited management accounts of our Group for the three months ended 31 March 2010 and a forecast of the consolidated results of our Group for the remaining three months ending 30 June 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 3 of the accountants' report, the text of which is set out in Appendix I to this prospectus.
- (2) The above profit forecast for the six months ending 30 June 2010 takes into account the estimated expenses to be borne by our Company of approximately RMB12.1 million in relation to the Global Offering.
- (3) The calculation of unaudited pro forma forecasted earnings per Share is calculated by dividing the forecasted consolidated profit for the six months ending 30 June 2010 attributable to owners of our Company, translated at RMB0.875 to HK\$1.000, by a total of 750,000,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued under the Global Offering had been in issue on 1 January 2010 but without taking into account any Shares which may be allotted and issued or repurchased by us pursuant to the Over-allotment Option, the Issue Mandate and the Repurchase Mandate).

INTERIM REPORT

Our Company's interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules if the Shares are listed on the Stock Exchange.

FINANCIAL INFORMATION

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as at 30 April 2010. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

There is a net valuation surplus, representing the excess market value of the properties over their carrying value, which will not be included in our consolidated financial statements pursuant to our current accounting policies.

The table below sets forth the reconciliation between the net book value of our Group's property interests as at 31 December 2009 and the valuation of such property interest as at 30 April 2010:

	RMB'000
Net book value of property interests of our Group as at 31 December 2009 —	
Buildings, land use rights and construction in progress	62,463
Land use rights classified as held for sale ⁽¹⁾	14,988
Movements for the four months ended 30 April 2010	
Add: Net addition during the period	4,224
Less: Disposal of land use rights classified as held for sale ⁽¹⁾	(14,988)
Less: Depreciation and amortisation during the period	<u>(587)</u>
Net book value as at 30 April 2010	66,100
Net valuation surplus	<u>45,030</u>
Valuation as at 30 April 2010 ⁽²⁾	<u><u>111,130</u></u>

Note:

- (1) On 15 December 2009, our Group entered into a conditional agreement with Wujin Reserve Centre for the disposal of land use rights for a consideration of RMB14,988,000, subject to the successful onwards sale of the land use rights by way of a public auction. Wujin Reserve Centre coordinated an auction of the parcel of land in question. The acquisition of the land has been completed and we received the payment in full on 22 April 2010.
- (2) The property interests of our Group as indicated are comprised of the properties valued by Jones Lang LaSalle Sallmanns Limited as which are described in Appendix IV to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our business development, financial or trading positions or prospects since 31 December 2009, being the date of our combined financial statements as set out in the Accountants' Report included in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Our Strategy” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds (after deducting underwriting fees and estimated expenses to be borne by our Company) to our Company from the Global Offering, assuming an Offer Price of approximately HK\$2.98 per Share, being the mid-point of the indicative range of the Offer Price of HK\$2.38 to HK\$3.57 per Share, will be approximately HK\$521.4 million (equivalent to approximately RMB456.2 million), assuming that the Over-allotment Option is not exercised and HK\$602.1 million (equivalent to approximately RMB526.9 million), assuming that the Over-allotment Option is exercised in full.

We intend to use the net proceeds we receive from the Global Offering as follows:

- as to approximately HK\$208.6 million (equivalent to approximately RMB182.5 million) or approximately 40% of the net proceeds for the acquisition of new production equipment for our new production facility to enhance our overall production capacity and to upgrade our obsolete production equipment;
- as to approximately HK\$104.3 million (equivalent to approximately RMB91.3 million) or approximately 20% of the net proceeds for market development, investment in research and development in new products and establishing dedicated specialist sales teams to develop targeted growth markets;
- as to approximately HK\$177.3 million (equivalent to approximately RMB155.1 million) or approximately 34% of the net proceeds for implementing mergers and acquisitions and other cooperative alliances to develop new product offerings; and
- as to the balance of approximately HK\$31.2 million (equivalent to approximately RMB27.3 million) or approximately 6% of the net proceeds for working capital and general corporate purposes.

We are constructing a new production facility for Trauson Jiangsu which is expected to be completed by December 2010. We plan to acquire new equipment for the production of trauma, spine and joint products to enhance our overall production capacity and to upgrade our obsolete production equipment over the course of the next five years starting 2010. The production capacity of Trauson Jiangsu will increase considerably following the relocation of its production facility. The increased production capacity is intended to be utilised for the production of new products in our pipeline as well as for products necessary to support our development of new domestic and overseas markets. For further details of the new production facility and its expected production capacity please refer to the section headed “Business — Production process — Production facilities” in this prospectus.

Part of the net proceeds we receive from the Global Offering will be used for market development. As described in the section headed “Business — Marketing” in this prospectus, we plan to establish and invite orthopaedic surgeons and other practitioners to join an academic round table discussion group and other academic seminars in the less developed cities in the PRC. We will continue to participate in and sponsor international and national medical conferences.

FUTURE PLANS AND USE OF PROCEEDS

We also intend to apply part of the net proceeds in implementing mergers and acquisitions and other cooperative alliances to develop new product offerings. From time to time, we have discussions with a number of acquisition or alliance targets to explore possible ways of cooperation or alliances. However, as at the Latest Practicable Date, these discussions were still at a preliminary stage and no concrete agreement with any such potential acquisition or alliance targets were close to materialisation.

To the extent that the net proceeds of the Global Offering we receive are not immediately required for the above purposes, we presently intend that such proceeds be placed on short-term deposits with licensed banks or financial institutions and/or invested into money market instruments in Hong Kong and/or the PRC.

In the event that the Offer Price is finally determined at the high-end of the indicative offer price range, the estimated net proceeds we will receive from the Global Offering will be approximately HK\$629.1 million, assuming that the Over-allotment Option is not exercised, and HK\$725.9 million, assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply such additional net proceeds in the same proportions as set out above.

In the event that the Offer Price is finally determined at the low-end of the indicative offer price range, the estimated net proceeds we will receive from the Global Offering will be approximately HK\$413.8 million, assuming that the Over-allotment Option is not exercised, and HK\$478.3 million, assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply the reduced net proceeds in the same proportions as set out above.

We will not use any of the net proceeds from the Global Offering to fund activities that any US person would be prohibited from undertaking under sanctions administered by OFAC.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder. Assuming an Offer Price of HK\$2.98 per Share (being the mid-point of the Offer Price range of HK\$2.38 to HK\$3.57 and assuming the Over-allotment Option is not exercised), the Selling Shareholder will receive approximately HK\$70.4 million (equivalent to approximately RMB61.6 million), after deducting underwriting fees and other expenses relating to the Sale Shares payable by the Selling Shareholder. Assuming an Offer Price of HK\$2.98 per Share (being the mid-point of the Offer Price range of HK\$2.38 to HK\$3.57 and assuming the Over-allotment Option is exercised in full), the Selling Shareholder will receive approximately HK\$81.3 million (equivalent to approximately RMB71.2 million), after deducting underwriting fees and other expenses relating to the Sale Shares payable by the Selling Shareholder.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

UBS AG, Hong Kong Branch
CCB International Capital Limited

Co-Manager

Guotai Junan Securities (Hong Kong) Limited

THE HONG KONG PUBLIC OFFER

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 21,284,000 Hong Kong Offer Shares for subscription under the Hong Kong Public Offer on the terms and subject to the conditions set out in this prospectus and the related Application Forms.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the existing issued Shares and the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be sold pursuant to the exercise of the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and us agreeing on the Offer Price), the Hong Kong Underwriters have severally but not jointly agreed to subscribe or procure subscribers for their respective applicable proportions (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offer, on the terms and subject to the conditions set out in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed, becoming unconditional and not having been terminated.

Grounds for termination of the Hong Kong Underwriting Agreement

The obligations of the Hong Kong Underwriters to subscribe or to procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination by notice in writing to us from the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if, before 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member thereof) (collectively the “Relevant Jurisdictions” and each a “Relevant Jurisdiction”); or

UNDERWRITING

- (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change, or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, 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) in or affecting a Relevant Jurisdiction; or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC or the European Union (or any member thereof), or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services procedures or matters in those places or jurisdictions; or
- (v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the Cayman Islands or any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union (or any member thereof) on the PRC; or
- (vii) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control in a Relevant Jurisdiction; or
- (viii) any material litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (ix) an executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from being a director or taking part in the management of a company; or
- (x) the chairman, the chief executive officer or the chief financial officer of our Company or any executive Director vacating his or her office; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction commencing any other action, or announcing an intention to take other action, against any executive Director; or
- (xii) a contravention by any member of our Group of the Listing Rules or applicable laws in any material respect; or
- (xiii) a prohibition on our Company or the Selling Shareholder for whatever reason from allotting or selling the Shares (including Shares to be sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or

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- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or any requirements or request of the Stock Exchange and/or the SFC, other than with the prior approval of the Global Coordinator; or
- (xvi) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (1) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, shareholders' equity, results of operations, financial or trading position of our Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have 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 preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Global Coordinator or any of the Hong Kong Underwriters:
 - (i) that any statement contained in, among other things, this prospectus and/or any announcements issued by our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in, among other things, this prospectus and/or any announcements issued by our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) is not in any material respect fair and honest and based on reasonable grounds or, where applicable, based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from, among other things, this prospectus and/or any announcements issued by our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto); or
 - (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Purchase Agreement (other than on any of the Hong Kong Underwriters or the International Purchasers); or

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- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the controlling shareholders, our chairman and us pursuant to the indemnification provisions under the Hong Kong Underwriting Agreement; or
- (v) any material adverse change or development involving a prospective material adverse change in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position or performance of any members of the Group, taken as a whole; or
- (vi) any breach of, or any event rendering untrue or incorrect, any of the warranties in the Hong Kong Underwriting Agreement; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted (other than subject to customary conditions) on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) we withdraw this prospectus (and any other documents issued or used in connection with the contemplated offer and sale of the Shares) or the Global Offering.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering or any issue of Shares or securities in compliance with Rule 10.08(1) to (4) of the Listing Rules, our Company will not, at any time during the period of six months from the date on which dealings in the Shares commence on the Stock Exchange, allot or issue or agree to allot or issue any Shares or other securities of our Company (including warrants or other securities of our Company) or grant or agree to grant any options or rights over any Shares or other securities of our Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce the intention to do so.

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to the Global Coordinator, the Hong Kong Underwriters and each of them, and Ms Xu, Luna Group and our chairman have undertaken to procure, except pursuant to the Global Offering, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months after the Listing Date (the "First Six-month Period"), our Company will not without the prior written consent of the Global Coordinator (for itself and on behalf of the 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 any other securities of our Company 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

UNDERWRITING

- (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 any other securities of our Company, 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
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above 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 Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “Second Six-Month Period”), our Company enters into any of the transactions specified in paragraph (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 we will not create a disorderly or false market in the securities of our Company. Ms Xu, Luna Group and our chairman undertake to each of the Global Coordinator and the Hong Kong Underwriters to procure our Company to comply with the above undertakings.

Pursuant to Rule 10.07(1) of the Listing Rules, each of Ms Xu and Luna Group has undertaken to our Company and the Stock Exchange that, except pursuant to the Stock Borrowing Agreement, she or it shall not and shall procure that the relevant registered shareholder(s) shall not:

- (i) during the period commencing from the date of this prospectus up to the expiry of the First Six-month Period, 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 Shares in respect of which it or she is shown by this prospectus to be the beneficial owner (the “Locked-up Shares”); and
- (ii) within the Second Six-month Period, 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 Locked-up Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, she or it would cease to be a controlling shareholder of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the shares beneficially owned by it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

UNDERWRITING

Each of Ms Xu and Luna Group has further undertaken to our Company and the Stock Exchange that she or it will, within a period of 12 months from the Listing Date, she or it shall:

- (a) when she or it pledges or charges any Shares beneficially owned by her or it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform our Company of such pledge/charge together with the number of Shares so pledged/charged; and
- (b) when she or it receives indications, whether verbal or written, from the pledgee or chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of Ms Xu and Luna Group and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by Ms Xu or Luna Group.

Pursuant to the Hong Kong Underwriting Agreement, each of Ms Xu and Luna Group has undertaken to each of our Company, the Global Coordinator and the Hong Kong Underwriters that except as disclosed in this prospectus it will not, without the prior written consent of the Global Coordinator and unless in compliance with the requirements of the Listing Rules:

- (a) it will not, at any time during the First Six-Month Period,
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase 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 any 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, as applicable) and in the case of Ms Xu, she will not do any of the foregoing in respect of her shares in Luna Group, or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein in (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) and in the case of Ms Xu, she will not do any of the foregoing in respect of her shares in Luna Group, or
 - (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above, or
 - (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above, in each case, whether any of the transactions specified sub-paragraph (i), (ii) or (iii) above 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 Shares or such other securities will be completed within the aforesaid period);

UNDERWRITING

- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect 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, it will cease to be a controlling shareholder of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Each of Ms Xu and Luna Group has further undertaken to our Company, the Global Coordinator and the Hong Kong Underwriters that they will, at any time within the period commencing on the date of this Agreement and ending on the expiry of the Second Six-Month Period:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of our Company beneficially owned by it, and in the case of Ms Xu, in respect of her shares in Luna Group, for a bona fide commercial loan, immediately inform us and the Global Coordinator in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (b) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of our Company or the shares in Luna Group, will be disposed of, immediately inform us and the Global Coordinator in writing of such indications.

Each of our Company, Ms Xu, Luna Group and our chairman has agreed to jointly and severally indemnify the Hong Kong Underwriters for 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 our Company of the Hong Kong Underwriting Agreement.

Commission

The Hong Kong Underwriters will receive a commission of 3% of the aggregate Offer Price of all the Hong Kong Offer Shares less any unsubscribed Hong Kong Offer Shares reallocated to the International Offering and ignoring for this purpose any Hong Kong Offer Shares reallocated from the International Offering due to over-subscription, out of which the Hong Kong Underwriters will pay any sub-underwriting commission. The underwriting commission for such reallocated Shares in each case will be payable to the International Purchasers in accordance with the International Purchase Agreement. Our Company and the Selling Shareholder may also in our sole discretion pay the Global Coordinator an additional incentive fee of up to 0.5% of the proceeds from the Offer Shares offered by our Company and the Selling Shareholder under the Global Offering.

THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company will enter into the International Purchase Agreement with, among others, the International Purchasers. Under the International Purchase Agreement, it is expected that the International Purchasers would, subject to

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certain conditions, severally but not jointly, agree to subscribe for or purchase, or to procure subscribers to subscribe for or purchase, their respective applicable proportions (set out in the International Purchase Agreement) of the International Offer Shares being offered pursuant to the International Offering.

Under the International Purchase Agreement, our Company and the Selling Shareholder intend to grant to the International Purchasers the Over-allotment Option, exercisable by the Global Coordinator on behalf of the International Purchasers for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offer, to require our Company and the Selling Shareholder to issue and sell up to 28,126,000 and 3,798,000 additional Shares, respectively, or an aggregate of 31,924,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued and sold at the Offer Price per Share (plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of covering over-allocations, if any, in the International Offering.

TOTAL COMMISSIONS AND EXPENSES

Assuming an Offer Price of approximately HK\$2.98 per Share (being the midpoint of the indicative offer price range of HK\$2.38 to HK\$3.57 per Offer Share), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to be approximately HK\$41.3 million (assuming that the Over-allotment Option is not exercised) in total. As to approximately HK\$36.4 million of such commissions, fees and expenses are payable by us, being in proportion to the number of Offer Shares offered by us and the Selling Shareholder in the Global Offering.

UNDERWRITERS' INTERESTS IN OUR COMPANY

CCB International Capital Limited, one of the Hong Kong Underwriters, is ultimately controlled by China Construction Bank Corporation. CCBI, also a company ultimately controlled by China Construction Bank Corporation, indirectly through Honest Fame, holds 55,940,625 Shares. Save as disclosed above and for their respective obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities in our Company or any of our subsidiaries.

SPONSOR'S INDEPENDENCE

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

UNDERWRITING

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offer and the International Offering, together referred to as “Syndicate Members,” may each individually undertake, and which do not form part of the underwriting or the stabilising process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for the Global Coordinator and its affiliates as the stabilising manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases. All of these activities may occur both during and after the end of the stabilising period described under the section headed “Structure of the Global Offering — Stabilisation”. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

STRUCTURE OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$3.57 and is expected to be not less than HK\$2.38, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offer as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offer, you must pay the maximum Offer Price of HK\$3.57 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.004% SFC transaction levy. This means that, for one board lot of 1,000 Offer Shares, you should pay HK\$3,606.02 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.57, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. You may find further details in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

DETERMINATION OF THE OFFER PRICE

We expect the Offer Price to be fixed by agreement among us, the Selling Shareholder and the Global Coordinator, on behalf of the Underwriters, on the Price Determination Date when market demand for the Offer Shares will be determined. We expect the Price Determination Date to be on or around Wednesday, 23 June 2010 and in any event, no later than Friday, 25 June 2010. The Offer Price will not be more than HK\$3.57 per Offer Share and is expected to be not less than HK\$2.38 per Offer Share. You 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 Global Coordinator, 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 reduce the number of Offer Shares and/or the indicative offer price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. 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 last day for lodging applications under the Hong Kong Public Offer publish a notice in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of the reduction in the number of Offer Shares and/or the indicative offer price range. Such notice will also be available at the websites of the Stock Exchange at www.hkex.com.hk and our Company at www.trauson.com.

Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon among the Global Coordinator, on behalf of the Underwriters, the Selling Shareholder and us, will be fixed within such revised offer price range. In this notice, we will also confirm or revise, as appropriate, the working capital statement as currently disclosed in “Financial Information — Working capital” of this prospectus, the offering statistics as currently disclosed in the section headed “Summary” of this prospectus, the use of proceeds in the section headed “Future Plans and Use of Proceeds” and any other financial information which may change as a result of such reduction. If you have already submitted an application for Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offer, you will not be allowed to subsequently withdraw your application, even if the number of Offer Shares

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and/or the offer price range is reduced. If we do not publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the number of Offer Shares and/or the indicative offer price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon by us, will be within the offer price range as stated in this prospectus.

If we are unable to reach an agreement with the Global Coordinator, on behalf of the Underwriters, on the Offer Price by Friday, 25 June 2010, the Global Offering will not proceed and will lapse.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offering and the application results and basis of allotment of the Hong Kong Offer Shares, on Monday, 28 June 2010.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the listing committee of the Stock Exchange granting the listing of and permission to deal in our Shares in issue and to be issued as described in this prospectus (including any additional Shares issuable pursuant to the exercise of the Over-allotment Option), and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Purchase Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the International Offering and the Hong Kong Public Offer is conditional upon, among other things, the other 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 not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the day after such lapse.

In the above situation, we will return all application monies to the applicants, without interest and on the terms described in the section headed “How to Apply for Hong Kong Offer Shares — XI. Refund of application monies” in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other banks licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

We expect to dispatch Share certificates for the Offer Shares on Monday, 28 June 2010. However, these Share certificates will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Tuesday, 29 June 2010 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting” in this prospectus has not been exercised.

The Global Offering

Our Global Offering consists of the Hong Kong Public Offer and the International Offering. We intend to initially make available up to 212,828,000 Offer Shares under the Global Offering, of which 191,544,000 Offer Shares will be conditionally placed at the Offer Price pursuant to the International Offering and the remaining 21,284,000 Offer Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offer subject, in each case, to reallocation on the basis described under “— The Hong Kong Public Offer” below. The 212,828,000 Offer Shares in the Global Offering will represent approximately 28.3% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option.

You may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Offering, but you may not apply in both offerings for the Offer Shares.

In other words, you may only apply for and receive either Hong Kong Offer Shares under the Hong Kong Public Offer or International Offer Shares under the International Offering, but not under both offerings. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve private placements of the Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption from registration under the US Securities Act and to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions 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. 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. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

Allocation of the International Offer Shares to investors under the International Offering will be determined by the Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its International Offer Shares after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of our shareholders as a whole.

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Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares 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 that those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

In connection with the Global Offering, we intend to grant the Over-allotment Option to the Global Coordinator on behalf of the International Purchasers. The Over-allotment Option gives the Global Coordinator the right, exercisable at any time from the day on which trading of our Shares commences on the Stock Exchange within 30 days from the last day for lodging of applications under the Hong Kong Public Offer, to require us and the Selling Shareholder to issue and sell up to 28,126,000 and 3,798,000 additional Shares, respectively, or an aggregate of 31,924,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. The Global Coordinator may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 4.1% of our enlarged issued share capital 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, we will make a press announcement.

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Global Coordinator may choose to borrow Shares from Luna Group under the Stock Borrowing Agreement, or acquire Shares from other sources. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) are complied with. Furthermore, (i) the Stock Borrowing Agreement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in the International Offering; (ii) the maximum number of Shares to be borrowed from Luna Group will be limited to the maximum number of Shares which may be issued and allotted and sold by our Company and Luna Group upon exercise of the Over-allotment Option, which is limited to 31,924,000 Shares, representing 15% of the Shares initially available under the Global Offering; (iii) the same number of Shares so borrowed must be returned to Luna Group or its nominees, as the case may be, on or before the third Business Day following the earlier of (a) the last date on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full; (iv) borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and regulatory requirements; and (v) no payment will be made to Luna Group in relation to the Stock Borrowing Agreement.

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Purchasers. The Hong Kong Public Offer and the International Offering are subject to the conditions described in the

STRUCTURE OF THE GLOBAL OFFERING

section headed “Underwriting” in this prospectus. In particular, we and the Global Coordinator, on behalf of the Underwriters, must agree on the Offer Price for the Global Offering. The Hong Kong Underwriting Agreement was entered into on 14 June 2010 and, subject to an agreement on the Offer Price between the Global Coordinator (on behalf of the Hong Kong Underwriters) and us for purposes of the Hong Kong Public Offer. The International Purchase Agreement (including the agreement on the Offer Price among us and the Global Coordinator on behalf of the International Purchasers for purposes of the International Offering) is expected to be entered into on 23 June 2010, being the Price Determination Date. The Hong Kong Underwriting Agreement and the International Purchase Agreement are inter-conditional upon each other.

THE HONG KONG PUBLIC OFFER

The Hong Kong Public Offer is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions provided in the Hong Kong Underwriting Agreement and described in “— Conditions of the Global Offering” above in this prospectus) for the subscription in Hong Kong of, initially, 21,284,000 Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offer described below, the Hong Kong Offer Shares will represent approximately 2.8% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The total number of the Offer Shares available under the Hong Kong Public Offer is to be divided into two pools for allocation purposes:

- Pool A: The Offer Shares in pool A will consist of 10,642,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Offer Shares in pool B will consist of 10,642,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the 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. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B. In addition, any application for more than 10,642,000 Offer Shares will be rejected. Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares

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under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who have indicated interest in or 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 or have received Offer Shares in the Hong Kong Public Offer.

The allocation of our Shares between the Hong Kong Public Offer and the International Offering is subject to adjustment. Currently, we have allocated 21,284,000 Shares to the Hong Kong Public Offer, representing 10% of our Shares available in the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offer 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 available for subscription under the Hong Kong Public Offer, then our Offer Shares will be reallocated to the Hong Kong Public Offer from the International Offering so that the total number of our Offer Shares available under the Hong Kong Public Offer will be increased to 63,850,000 Shares (in the case of (i)), 85,132,000 Shares (in the case of (ii)) and 106,414,000 Shares (in the case of (iii)), respectively, representing approximately 30%, 40% and 50%, respectively, of the total number of Offer Shares available under the Global Offering (before any exercise of the Over-allotment Option). In addition, the Global Coordinator has the discretion to reallocate our Shares offered in the International Offering to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer.

If the Hong Kong Public Offer is not fully subscribed, the Global Coordinator may, in their discretion, reallocate to the International Offering all or any unsubscribed Shares offered in the Hong Kong Public Offer in such amount as they deem appropriate.

THE INTERNATIONAL OFFERING

The number of the Offer Shares to be initially offered for subscription and sale under the International Offering will be 191,544,000 Offer Shares (comprising 166,216,000 new Shares and 25,328,000 Sale Shares), representing 90% of the Offer Shares initially available under the Global Offering and approximately 25.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on our behalf by the International Purchasers or through selling agents appointed by them. International Offer Shares will be placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions meeting the requirements of, and in reliance on, Regulation S, and with QIBs in the United States in reliance on Rule 144A or another exemption from registration under the US Securities Act. The International Offering is subject to the Hong Kong Public Offer becoming unconditional.

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The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that such investor is excluded from any application of Hong Kong Offer Shares under the Hong Kong Public Offer.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer price of the securities. In Hong Kong and certain other jurisdictions, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator (the “Stabilising Manager”) and/or its affiliates and agents, on behalf of the International Purchasers and the Hong Kong Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period which begins on the commencement of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer. The stabilising period is expected to expire on Wednesday, 21 July 2010. However, there is no obligation on the Stabilising Manager or any person acting for it to do this. Such stabilising action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The stabilising action which may be taken by the Stabilising Manager may include primary and ancillary stabilising action such as purchasing or agreeing to purchase any of the Shares, exercising the Over-allotment Option, stock borrowing, establishing a short position in the Shares, liquidating long positions in the Shares or offering or attempting to do any such actions. The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued or sold under the Over-allotment Option, namely 31,924,000 Shares, which is 15% of the Shares available under the Global Offering. For purposes of covering such over-allocations, the Stabilising Manager may borrow from Luna Group in the aggregate up to 31,924,000 Shares, which is equivalent to the maximum number of Shares to be issued and sold upon exercise of the Over-allotment Option in full, pursuant to the Stock Borrowing Agreement.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilisation) Rules includes (a) primary stabilisation, including purchasing, or agreeing to purchase, any of the Shares or offering or attempting to do so for the purpose of preventing or minimising any reduction in the market price of the Shares, and (b) ancillary stabilisation in connection with any primary stabilising action, including: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price; (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price; (iii) purchasing or subscribing, or agreeing to purchase or subscribe for Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) selling or agreeing to sell Shares to liquidate a long position held as a result of those purchases or subscriptions; and (v) offering or attempting to do anything described in (ii), (iii) or (iv). The Stabilising Manager may take any one or more of the stabilising actions described above.

STRUCTURE OF THE GLOBAL OFFERING

The Stabilising Manager may, in connection with the stabilising action, maintain a long position in the Shares. There is no certainty regarding the extent to which and the time period for which the Stabilising Manager will maintain any such position. In the event of any liquidation of any such long position, there may be an impact on the market price of the Shares. Investors should be aware that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action. Stabilising bids may be made or transactions effected in the course of stabilising action at any price below the Offer Price. 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. Such transactions, if commenced, may be discontinued at any time.

HOW TO APPLY FOR HONG KONG OFFER SHARES

I. CHANNELS OF APPLICATION

There are three channels to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either (i) using a **WHITE** or **YELLOW** Application Form; (ii) applying online through the designated website of the **White Form eIPO** Service Provider, referred herein as the “**White Form eIPO** service” or (iii) giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

II. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a US person (as defined in Regulation S);
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number, and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**. If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the application form must be signed by a duly authorised office, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Global Coordinator (or its respective agents or nominees) may accept the application at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Global Coordinator or the designated **White Form eIPO** Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, or directors or chief executives of our Company or any of our subsidiaries, or their respective associates or any other connected persons of our Company or our subsidiaries.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest for International Offer Shares under the International Offering, but may not do both.

III. APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

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 Tuesday, 15 June 2010 until 12:00 noon on Monday, 21 June 2010 from:

UBS AG, Hong Kong Branch
52nd Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

CCB International Capital Limited
34th Floor Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of Bank of China (Hong Kong) Limited:

<u>Branch name:</u>	<u>Branch address:</u>
<u>Hong Kong Island</u>	
Bank of China Tower Branch	3/F, 1 Garden Road
Central District (Wing On House) Branch	71 Des Voeux Road Central
409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
<u>Kowloon</u>	
Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
Tsim Sha Tsui East Branch	Shop G02-03, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui
Mong Kok Branch	589 Nathan Road, Mong Kok
Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
<u>New Territories</u>	
Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 June 2010 until 12:00 noon on Monday, 21 June 2010 from:

- (i) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (ii) Your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things, you:

- (i) **agree** with our Company and each shareholder of our Company, and our Company agrees with each of its shareholders, to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- (ii) **agree** with our Company and each shareholder of the Company that the Shares are freely transferable by the holders thereof;
- (iii) **confirm** that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (iv) **agree** that our Company, our Directors, the Global Coordinator, the Underwriters, their respective directors, and any other parties involved in Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (v) **undertake and confirm** that, you (if the application is made for your benefit) 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, take up or indicate an interest for, any Offer Shares under the International Offering;
- (vi) **agree** to disclose to our Company and/or the Hong Kong Share Registrar, receiving banks, Global Coordinator, Sponsor and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

- (i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (a) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- (ii) **If the application is made by an individual CCASS Investor Participant:**
 - (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
 - (b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (iii) **If the application is made by a joint individual CCASS Investor Participant:**
 - (a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
 - (b) the participant I.D. must be inserted in the appropriate box in the Application Form.
- (iv) **If the application is made by a corporate CCASS Investor Participant:**
 - (a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
 - (b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application from in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorised attorney, our Company and the Global Coordinator as our agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company and the Global Coordinator, in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IV. APPLYING THROUGH WHITE FORM eIPO

General

- (i) You may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk if you satisfy the relevant eligibility criteria for this as set out in “II. Who can apply for Hong Kong Offer Shares” above and on the same website. If you apply through **White Form eIPO**, the Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (iii) If you give electronic application instructions through the designated website at www.eipo.com.hk, you will have authorised the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (iv) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full before making any application.
- (v) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (vi) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (vii) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the paragraph headed “VI. When may applications be made” below.
- (viii) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Monday, 21 June 2010, or such later time as described under the paragraph headed “VI. When may applications be made — Effect of bad weather on the opening of the application lists” below, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.
- (ix) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (x) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. **Our Company, our Directors, the Sponsor, the Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form.

Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and **White Form eIPO** designated website at www.eipo.com.hk subject to the Articles of Association;
- **undertakes and agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **declares** that this is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **undertakes and confirms** that the applicant and the person for whose benefit the applicant are applying have not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, nor otherwise participate in the International Offering;
- **understands** that this declaration and representation will be relied upon by our Company in deciding whether or not to make any allocation of Hong Kong Offer Shares in response to such application;
- **authorises** our Company to place the applicant's name on the register of members of our Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this prospectus) to send any share certificates and/or any refund cheque(s) by ordinary post at the applicant's own risk to the address given

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on the **White Form eIPO** Application Form except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any share certificate(s) and/or refund cheque(s) in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at www.eipo.com.hk and this prospectus;

- **requests** that any refund cheque(s) be made payable to the applicant; and (subject to the terms and conditions set out in this prospectus) to send any refund cheques by ordinary post and at the applicant's own risk to the address given on the **White Form eIPO** application form (except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and collects any refund cheque(s) in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at www.eipo.com.hk and this prospectus);
- **have read** the terms and conditions and application procedures set out on in the **White Form eIPO** designated website at www.eipo.com.hk and this prospectus and agree to be bound by them;
- **represents, warrants and undertakes** that the applicant, and any persons for whose benefit the applicant are applying are non-US person(s) outside the United States (as defined in Regulation S), when completing and submitting this Application Form or is a person described in paragraph (h)(3) of Rule 902 of Regulation S or the allocation of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental information

If any supplement to this prospectus is issued, applicant(s) who have already submitted **electronic application instructions** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- **instruct and authorise** our Company, the Sponsor and/or the Global Coordinator as agent for our Company (or their respective agents or nominees) to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the **White Form eIPO** designated website at www.eipo.com.hk;
- **confirm** that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

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- **agree** that our Company and our Directors, are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;
- (if you are an agent for another person) **warrant** reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorised to submit the application as that other person's agent;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Offering;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **agree** to disclose to our Company, and/or the Hong Kong Share Registrar, receiving banks, Sponsor, Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- **agree** with our Company and each shareholder, and our Company agrees with each of its shareholder, to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agree** with our Company and each shareholder that the Shares are freely transferable by the holders thereof;
- **represent, warrant** and **undertake** that you are not, and none of the other person(s) for whose benefit you are applying is, a US person (as defined in Regulation S) when completing the Application Form;
- **represent** and **warrant** that you understand that the Shares have not been and will not be registered under the US Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus, the **White Form eIPO** designated website at www.eipo.com.hk and the **White Form eIPO** website and agree to be bound by them;
- **undertake** and **agree** to accept the Shares applied for, or any lesser number allocated to you under your application; and
- if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sponsor, the Global Coordinator and the Hong Kong Underwriters nor any of their respective officers or

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advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus, the **White Form eIPO Application Form** and the **White Form eIPO** designated website at www.eipo.com.hk.

Our Company, the Sponsor, the Global Coordinator, the Underwriters and their respective directors, officers, employees, partners, agents, advisers, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

Power of attorney

If your application is made by a duly authorised attorney, our Company, the Sponsor or the Global Coordinator, as its agents, may accept it at their discretion and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out in the paragraph headed “X. Results of allocation — Despatch/collection of share certificates/e-Refund payment instructions/refund cheques” below.

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **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 contained 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 Centre
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above 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 are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and the Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - **agrees** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any Offer Shares under the International Offering nor otherwise participated in the International Offering;
 - (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by our Company, our Directors, the Sponsor and the Global Coordinator in deciding whether or not to make any allocation of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

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- **authorises** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- **agrees** that our Company, our Directors, the Sponsor, the Global Coordinator, the Underwriters, their respective directors, and any other parties involved in Global Offering are liable only for the information and representations contained in this prospectus;
- **agrees** to disclose that person's personal data to our Company, the Sponsor, the Global Coordinator and/or their respective agents any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before Thursday, 15 July 2010, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Thursday, 15 July 2010, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Thursday, 15 July 2010, if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- **agrees** with our Company, for itself and for the benefit of each of its shareholders (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 our Company and on behalf of each of its shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;

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- agrees with our Company (for itself and for the benefit of each of its shareholders) that Shares are freely transferable by the holders thereof; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

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 Hong Kong Offer Shares on your behalf;
- **instructed** and **authorised** HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy, and 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 offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy, and 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 which it is stated to do on your behalf in the **WHITE** Application Form.

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 in respect of which you have given such instructions and/or in respect of 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 purpose of considering whether multiple applications have been made.

Minimum subscription 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** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 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.

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 each such instructions is given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies 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 causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal data

The section of the Application Form entitled “Personal Data” applies to any personal data held by our Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than **HKSCC Nominees**.

Warning

The subscription for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares. To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input of their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 21 June 2010.

VI. WHEN MAY APPLICATIONS BE MADE

Applications on **WHITE** or **YELLOW** Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Monday, 21 June 2010, or, if the application lists are not open on that day, by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below. Cheque(s) or banker’s cashier order(s) should be crossed “Account Payee Only” and made payable to “Bank of China (Hong Kong) Nominees Limited — Trauson Holdings Public Offer.”

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited, listed under the paragraph headed “III. Applying by using an Application Form — Where to collect the Application Forms” above at the following times:

Tuesday, 15 June 2010 — 9:00 a.m. to 5:00 p.m.
Thursday, 17 June 2010 — 9:00 a.m. to 5:00 p.m.
Friday, 18 June 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, 19 June 2010 — 9:00 a.m. to 1:00 p.m.
Monday, 21 June 2010 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR HONG KONG OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 21 June 2010.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the application lists. No allotment of any of the Shares will be made earlier than Monday, 21 June 2010.

White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Tuesday, 15 June 2010 until 11:30 a.m. on Monday, 21 June 2010 or such later time as described under the paragraph headed “Effect of bad weather on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 21 June 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

Electronic application instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 15 June 2010	— 9:00 a.m. to 8:30 p.m. ¹
Thursday, 17 June 2010	— 8:00 a.m. to 8:30 p.m. ¹
Friday, 18 June 2010	— 8:00 a.m. to 8:30 p.m. ¹
Saturday, 19 June 2010	— 8:00 a.m. to 1:00 p.m. ¹
Monday, 21 June 2010	— 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 Tuesday, 15 June 2010 until 12:00 noon on Monday, 21 June 2010 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Monday, 21 June 2010, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 21 June 2010. 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 warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Offer do not open and close on Monday, 21 June 2010 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. A press announcement will be made in such event.

VII. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for Hong Kong Offer Shares if and only if:

You are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different owners. 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. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO Service Provider** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you have made an application by giving **electronic application instructions** to HKSCC and 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 in respect of which you have given such instructions and/or in respect of 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. No application for any other number of Hong Kong Offer Shares will be considered any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service; or
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service and that you are duly authorised to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic applications instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service for more than 10,642,000 Shares, being 50% of the Share initially being offered for public subscription under the Hong Kong Public Offer, as more particularly described in the section headed "Structure of the Global Offering — The Hong Kong Public Offer" in this prospectus; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on your **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- 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).

VIII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC or the designated **White Form eIPO** Service Provider through **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees or the **White Form eIPO** Service Provider on your behalf cannot be revoked before Thursday, 15 July 2010. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Thursday, 15 July 2010 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees or the **White Form eIPO** Service Provider on your behalf may be revoked before Thursday, 15 July 2010 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees or the **White Form eIPO** Service Provider 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 announcement 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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- **Full discretion of our Company, the Sponsor, the Global Coordinator or the designated White Form eIPO Service Provider or its or their respective agent and nominees to reject or accept your application:**

Our Company, the Sponsor and the Global Coordinator (as agents for our Company) or the designated **White Form eIPO Service Provider**, or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our Company, the Sponsor, the Global Coordinator and the Hong Kong Underwriters, in their capacity as our agents, and their agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allocation of Hong Kong Offer Shares is void:**

The allocation of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply using a **YELLOW Application Form**) will be void if the listing committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the listing committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allocation if:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefits you apply for 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) Offer Shares in the International Offering. By filling in any of the Application Forms or apply by giving **electronic application instructions**, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer 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 received Hong Kong Offer Shares in the Hong Kong Public Offer;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the instructions stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

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IX. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$3.57 per Offer Share. You must also pay a brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% in full. This means that for one board lot of 1,000 Shares you will pay HK\$3,606.02. The Application Forms have tables showing the exact amount payable for certain numbers of Shares up to 10,642,000 Shares.

You must pay the amount payable upon application for the Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

X. RESULTS OF ALLOCATION

Announcement of the results of allocations in the Hong Kong Public Offer, including the Offer Price, the level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Offer, the basis of allocation of Hong Kong Offer Shares and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or the designated **White Form eIPO** Service Provider through the designated **White Form eIPO** website, will be made available in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Monday, 28 June 2010.

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- results of allocations for the Hong Kong Public Offer will be available from the Stock Exchange's website at www.hkex.com.hk;
- results of allocation for the Hong Kong Public Offer will be available from our Hong Kong Public Offer results of allocation website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Monday, 28 June 2010 to 12:00 midnight on Sunday, 4 July 2010. The user will be required to key in the Hong Kong Identity Card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result. Our Company's website (www.trauson.com) will also publish a hyper-link to the aforesaid website during the same period;
- results of allocations will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 28 June 2010 to Thursday, 1 July 2010; and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual locations from Monday, 28 June 2010 to Wednesday, 30 June 2010 at all the receiving banks locations at the addresses set out in the paragraph headed "III. Applying by using an Application Form — Where to collect the Application Forms" above.

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Despatch/Collection of share certificates/e-Refund payment instructions/refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$3.57 per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — The Hong Kong Public Offer” or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. Share certificates will only become valid certificates of title at 8:00 a.m. on Tuesday, 29 June 2010 provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section headed “Underwriting — The Hong Kong Public Offer — Grounds for termination of the Hong Kong Underwriting Agreement” has not been exercised.

If you apply by **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** through **White Form eIPO** service, subject as mentioned below, in due course, there 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 your Application Form:

- (i) (a) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (b) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **YELLOW** Application Forms: Share certificates for their Shares successfully applied for will be deposited into CCASS as described below); and/or
- (ii) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (a) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (b) all the application monies, if the application is wholly unsuccessful; and/or (c) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/ surplus monies but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

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Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **WHITE** Application Forms and **White Form eIPO** are expected to be posted on or before Monday, 28 June 2010. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply by giving electronic application instructions to HKSCC, and your application is wholly or partially successful

- (i) your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Monday, 28 June 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (ii) refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Offer Share initially paid on application, in each case including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 28 June 2010. No interest will be paid thereon.

If you apply using a WHITE Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable), to which they are entitled, in person from the Hong Kong Share Registrar and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) from the Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 28 June 2010 or such other date as notified by our Company in the newspapers as the date of collection/despatch of refund cheques/e-Refund payment instructions/share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Monday, 28 June 2010, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheques (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Monday, 28 June 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in accordance with the details set out in this paragraph headed "X. Results of allocation". You should check the results published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 28 June 2010 or such other date as shall be 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 the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply through White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 28 June 2010, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be despatched to your application payment bank account on Monday, 28 June 2010.

If you used multi-bank accounts to pay the application monies, refund cheque (if any) will be despatched to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on Monday, 28 June 2010, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter, by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Monday, 28 June 2010 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the paragraph headed “IV. Applying through **White Form eIPO** — Additional information” above.

If you apply by giving electronic application instructions through HKSCC Nominees

If you apply by giving **electronic application instructions** through HKSCC Nominees, you should check the results published by us in accordance with the details set out in this paragraph headed “X. Results of allocation” and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 28 June 2010 or such other date as shall be 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 (by giving **electronic application instructions** to HKSCC Nominees), 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 Monday, 28 June 2010. HKSCC will also make available to you an activity statement showing the number of Hong Kong Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

XI. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, our Company will refund your application monies, including a brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies before the date of despatch of refund cheques will be retained for the benefit of our Company.

If your application is accepted only in part, our Company will refund the appropriate portion of your application monies, including the related a brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If the Offer Price as finally determined is less than the offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, our Company will refund the surplus application monies, together with the related a brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company, the Sponsor and the Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Monday, 28 June 2010 in accordance with the various arrangements as described above.

XII. DEALINGS AND SETTLEMENT

Commencement of dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 29 June 2010.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 325.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the 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 Shares on the Stock Exchange or any other date as HKSCC may choose. Settlement of transaction between participants of the 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 Shares to be admitted into CCASS.

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 Shares to be admitted into CCASS.



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

15 June 2010

The Directors
Trauson Holdings Company Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Trauson Holdings Company Limited (the “Company”), its subsidiaries and the Shanghai Trading Business (defined below, together with the Company and its subsidiaries hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2009 (the “Track Record Period”) for inclusion in the prospectus of the Company dated 15 June 2010 (the “Prospectus”) in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on 27 January 2010. Pursuant to a group reorganisation, as more fully explained in the section headed “History and Development — Reorganisation” to the Prospectus (the “Group Reorganisation”), the Company became the holding company of its subsidiaries on 10 March 2010.

The Company has direct and indirect interests in the following subsidiaries during the Track Record Period and at the date of this report:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest of the Group				Principal activities
			As at 31 December			At date of this report	
			2007	2008	2009		
Trauson (Hong Kong) Company Limited 創生香港(發展)有限公司 (“Trauson Hong Kong”)	Hong Kong 18 November 2005	HK\$10,000	100%	100%	100%	100%	Investment holding

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest of the Group				Principal activities
			As at 31 December			At date of this report	
			2007	2008	2009		
Trauson (Jiangsu) Medical Instrument Company Limited 創生醫療器械(江蘇)有限公司 (“Trauson Jiangsu”)	The People’s Republic of China (the “PRC”) 18 September 2003 as a wholly-foreign owned enterprise for a term of 22 years	RMB31,000,000	100%	100%	100%	100%	Research, design, manufacture and sales of orthopaedic implants and medical instruments
Trauson Longcheng Medical Instrument (Changzhou) Company Limited 創生龍城醫療器械(常州)有限公司 (formerly known as Trauson Medical Instrument (China) Company Limited 創生醫療器械(中國)有限公司 (“Trauson Longcheng”)	PRC 14 April 2008 as a wholly-foreign owned enterprise for a term of 30 years	US\$10,415,540	—	100%	100%	—	Manufacture and sales of orthopaedic implants and medical instruments
Trauson (Liyang) Gardening Development Co., Ltd. 創生(溧陽)農藝發展有限公司 (“Trauson Liyang”)	PRC 27 January 2006 as a wholly-foreign owned enterprise for a term of 43 years	US\$720,000	100%	100%	—	—	Property holding
Orthmed (Hong Kong) Medical Instrument Company Limited 奧斯邁(香港)醫療器械有限公司 (“Orthmed Hong Kong”)	Hong Kong 18 October 2007	HK\$10,000	100%	100%	100%	100%	Investment holding
Changzhou Orthmed Medical Instrument Company Limited 常州奧斯邁醫療器械有限公司 (“Orthmed Changzhou”)	PRC 4 December 2002 as a wholly-foreign owned enterprise for a term of 50 years	US\$5,600,000	100%	100%	100%	100%	Research, design, manufacture and sales of orthopaedic implants and medical instruments

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest of the Group				Principal activities
			As at 31 December			At date of this report	
			2007	2008	2009		
Trauson Holdings (Hong Kong) Company Limited (formerly known as Trauson Holdings Company Limited) 創生控股(香港)有限公司 (“Trauson Holdings HK”)	Hong Kong 10 November 2008	HK\$10,000	—	—	100%	100%	Investment holding
Trauson Holdings (BVI) Company Limited (“Trauson Holdings BVI”)*	British Virgin Islands 27 January 2010	US\$1	—	—	—	100%	Investment holding

* Directly held by the Company

Note: In February 2010, Trauson Longcheng has been merged into Trauson Jiangsu and no longer exists as of the report date.

The Company and its subsidiaries have adopted 31 December as their financial year end date.

Since the commencement of the Track Record Period and until the end of October 2009, the trading of orthopaedic implants and medical instruments in Shanghai city (collectively referred to as “Shanghai Trading Business”) was carried out by Shanghai Trauson Medical Instrument Company Limited, Shanghai Guang Yin Medical Instrument Company Limited and Shanghai Guang Yin Trading Company Limited (collectively referred to as “Old Shanghai Trading Entities”, whose sole operation during the Track Record Period was the Shanghai Trading Business), respectively. These entities were established in the PRC with limited liability and were controlled by Ms. Xu Yan Hua (“Ms. Xu”), the controlling shareholder of the Group. Since November 2009, Trauson Jiangsu has gradually taken up the Shanghai Trading Business from the Old Shanghai Trading Entities, and the Old Shanghai Trading Entities ceased the relevant operations in December 2009 (the “Transfer”). All of the relevant assets and liabilities of the Shanghai Trading Business at the date of the Transfer, principally comprised net assets of RMB766,000 was retained by the Old Shanghai Trading Entities and was accounted for as deemed distribution by the Group to Ms. Xu in 2009. The Shanghai Trading Business has been under the common control of Ms. Xu throughout the Track Record Period. For the purpose of this report, the Financial Information has been prepared to present the combined financial information of the Company’s subsidiaries and the Shanghai Trading Business prior to the Transfer.

No audited financial statements have been prepared for Trauson Holdings HK since its date of incorporation as it has not carried on any business, other than the events stated in Appendix VI of the Prospectus. For the purpose of this report, we have, however, reviewed all the relevant transactions since its date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion in the Financial Information relating to the Group.

The statutory financial statements of Trauson Jiangsu, Trauson Longcheng, Trauson Liyang and Orthmed Changzhou were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP"). The statutory financial statements of Trauson Hong Kong and Orthmed Hong Kong were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They were audited by the following certified public accountants registered in the PRC and Hong Kong, as appropriate:

Name of subsidiary	Financial year	Name of auditor
Trauson Jiangsu	For each of the years ended 31 December 2007, 2008 and 2009	江蘇國瑞會計師事務所 Jiangsu Guo Rui Certified Public Accountants Co., Ltd.
Trauson Liyang	For each of the years ended 31 December 2007, 2008 and 2009	溧陽眾誠會計師事務所 Liyang Zhong Cheng Certified Public Accountants Co., Ltd.
Orthmed Changzhou	For each of the years ended 31 December 2007, 2008 and 2009	江蘇國瑞會計師事務所 Jiangsu Guo Rui Certified Public Accountants Co., Ltd.
Trauson Hong Kong	For each of the years ended 31 December 2007, 2008 and 2009	歐陽煊螢會計師行 Au Yeung Huen Ying & Co.
Orthmed Hong Kong	From 18 October 2007 (date of incorporation) to 31 December 2007 and for each of the years ended 31 December 2008 and 2009	歐陽煊螢會計師行 Au Yeung Huen Ying & Co.

There is no statutory audit requirement for Trauson Longcheng since its date of establishment as it is exempted and approved by Finance Bureau of Wujin District Changzhou and the Eighth Branch of State of Tax Bureau of Wujin District Changzhou, respectively. There is no statutory audit requirement for the Old Shanghai Trading Entities which conducted the Shanghai Trading Business. For the purpose of this report, the directors of Trauson Hong Kong and Orthmed Hong Kong have prepared the consolidated financial statements of Trauson Hong Kong and consolidated financial statements of Orthmed Hong Kong, respectively, which are the then holding companies of the operating subsidiaries of the Group and the Shanghai Trading Business for the Track Record Period or since their respective dates of incorporation/establishment to 31 December 2009 or the date of

disposal/Transfer, where there is a shorter period (the “Underlying Financial Statements”) in accordance with accounting policies which conform with HKFRS issued by the HKICPA. We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of section E to the Financial Information below, after making necessary adjustments as we considered appropriate to the Underlying Financial Statements for the preparation of the Financial Information.

The Underlying Financial Statements are the responsibility of the directors of Trauson Hong Kong and Orthmed Hong Kong 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, on the basis of preparation set out in note 1 of Section E to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 31 December 2008 and 31 December 2009, and of the combined results and combined cash flows of the Group for the Track Record Period.

A. COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Revenue	6	131,582	173,692	211,485
Cost of sales		<u>(54,001)</u>	<u>(58,839)</u>	<u>(62,262)</u>
Gross profit		77,581	114,853	149,223
Other income and other gains and losses . . .	7	6,638	3,480	1,094
Distribution and selling expenses		(10,474)	(13,822)	(21,431)
Administrative and general expenses		(12,648)	(20,697)	(21,411)
Research and development expenses		(5,133)	(6,516)	(9,710)
Other expenses	8	(480)	(1,049)	(2,536)
Interest expense in relation to bank loans wholly repayable within five years		(1,364)	(1,179)	(846)
Share of loss of an associate		—	<u>(232)</u>	<u>(322)</u>
Profit before tax	9	54,120	74,838	94,061
Income tax credit (expense)	11	<u>1,595</u>	<u>(10,006)</u>	<u>(11,882)</u>
Profit for the year and total comprehensive income for the year		<u>55,715</u>	<u>64,832</u>	<u>82,179</u>
Attributable to owners of the Company		<u>55,715</u>	<u>64,832</u>	<u>82,179</u>
		RMB	RMB	RMB
Earnings per share — basic	12	<u>0.16</u>	<u>0.12</u>	<u>0.15</u>

B. COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December		
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	13	70,101	85,573	89,512
Prepaid lease payments	14	5,177	5,058	20,148
Deposit paid for land use rights	14	—	9,000	—
Intangible asset	15	—	—	2,723
Interest in an associate	16	—	10,768	—
Deferred tax assets	17	2,649	3,532	2,889
		<u>77,927</u>	<u>113,931</u>	<u>115,272</u>
Current assets				
Inventories	18	39,162	43,624	43,557
Trade and other receivables	19	27,981	52,052	69,340
Amounts due from related parties	20	5,903	15,022	37,485
Amounts due from a shareholder	21	3,150	1,730	—
Prepaid lease payments	14	119	119	432
Held for trading investments	22	30	12	—
Bank balances and cash	23	25,541	29,464	58,394
		<u>101,886</u>	<u>142,023</u>	<u>209,208</u>
Land use rights classified as held for sale	14	—	—	14,988
		<u>101,886</u>	<u>142,023</u>	<u>224,196</u>
Current liabilities				
Trade and other payables	24	21,849	36,352	36,711
Amounts due to related parties	25	501	401	9,377
Amounts due to a shareholder	26	56,339	53,232	52,713
Tax liabilities		—	2,695	3,199
Short-term bank loans	27	15,000	10,000	—
		<u>93,689</u>	<u>102,680</u>	<u>102,000</u>
Net current assets		<u>8,197</u>	<u>39,343</u>	<u>122,196</u>
Total assets less current liabilities		<u>86,124</u>	<u>153,274</u>	<u>237,468</u>
Non-current liabilities				
Deferred tax liabilities	17	—	2,318	1,375
		<u>—</u>	<u>2,318</u>	<u>1,375</u>
		<u>86,124</u>	<u>150,956</u>	<u>236,093</u>
Capital and reserves				
Share capital	28	20	20	20
Reserves		86,104	150,936	236,073
Total equity attributable to owners of the Company		<u>86,124</u>	<u>150,956</u>	<u>236,093</u>

C. COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				
	Share capital	Special reserve	Statutory surplus reserve	Contribution and accumulated earnings	Total
	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000	RMB'000
At 1 January 2007	10	48,572	3,900	24,046	76,528
Issuance of ordinary shares	10	—	—	—	10
Capital contributed into Old Shanghai Trading Entities	—	200	—	—	200
Profit for the year and total comprehensive income for the year	—	—	—	55,715	55,715
Appropriation of statutory surplus reserve	—	—	5,139	(5,139)	—
Deemed distribution to the controlling shareholder upon transfer of Orthmed Changzhou (note a(i))	—	(46,329)	—	—	(46,329)
At 31 December 2007	20	2,443	9,039	74,622	86,124
Profit for the year and total comprehensive income for the year	—	—	—	64,832	64,832
Appropriation of statutory surplus reserve	—	—	5,692	(5,692)	—
At 31 December 2008	20	2,443	14,731	133,762	150,956
Capital contributed into Old Shanghai Trading Entities	—	800	—	—	800
Deemed distribution to the controlling shareholder upon the Transfer (note a(ii))	—	(3,243)	—	2,477	(766)
Gain on disposal of a subsidiary to a company wholly owned by Mr. Qian Fu Qing ("Mr. Qian") (note c)	—	2,370	—	—	2,370
Gain on disposal of an associate to Mr. Qian (note c)	—	554	—	—	554
Profit for the year and total comprehensive income for the year	—	—	—	82,179	82,179
Appropriation of statutory surplus reserve	—	—	7,797	(7,797)	—
At 31 December 2009	20	2,924	22,528	210,621	236,093

Notes:

- (a) The amount at 1 January 2007 mainly represented the paid-in capital of the Old Shanghai Trading Entities and Orthmed Changzhou contributed by the controlling shareholder.
- (i) In 2007, the former shareholder of Orthmed Changzhou, Fanlight Corporation Inc., a company incorporated in California, United States of America and beneficially owned by Ms. Xu, transferred its 100% equity interest of Orthmed Changzhou to Orthmed Hong Kong at a consideration of RMB46,329,000. This transfer was accounted for as restructuring of companies under common control by Ms. Xu, using the principles of merger accounting as set out in note 3 below. The consideration was accounted for as deemed distribution to Ms. Xu and included in amounts due to a shareholder.
- (ii) Upon the Transfer of the Shanghai Trading Business to Trauson Jiangsu in 2009, the net assets of RMB766,000 retained by the Old Shanghai Trading Entities were treated as deemed distribution to the controlling shareholder as the Old Shanghai Trading Entities are no longer part of the Group.
- (b) In accordance with relevant laws and regulations in the PRC, the PRC subsidiaries are required to transfer at least 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC subsidiaries' registered capital.

The statutory surplus reserves can be used to make up losses or for conversion into capital. The PRC subsidiaries may, upon the approval by a resolution of shareholders' general meeting, convert their surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC subsidiaries' statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

- (c) The amount represents the net gain on disposal of a subsidiary and an associate to Mr. Qian in 2009, being considered as capital contribution and recognised as a special reserve. Please refer to note 29 to the Financial Information for details.
- (d) During the Track Record Period, the Group did not declare any dividends.

D. COMBINED STATEMENTS OF CASH FLOWS

	NOTES	Year ended 31 December		
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Operating activities				
Profit before tax		54,120	74,838	94,061
Adjustments for:				
Depreciation of property, plant and equipment		6,234	8,301	9,967
Write-down of inventories		4,372	4,835	408
Interest expense		1,364	1,179	846
Impairment losses on trade receivables . . .		804	699	616
Loss on disposal of property, plant and equipment		249	1	15
Release of prepaid lease payments		119	119	589
Share of loss of an associate		—	232	322
Interest income		(200)	(489)	(876)
Fair value change of held for trading investments		(68)	(57)	(14)
Operating cash flows before movements in working capital		66,994	89,658	105,934
Decrease (increase) in inventories		7,809	(9,297)	(341)
Increase in trade and other receivables		(11,549)	(24,770)	(18,986)
(Increase) decrease in amounts due from related parties		—	(584)	584
Decrease in held for trading investments		38	75	26
(Decrease) increase in trade and other payables		(6,866)	14,503	2,656
(Decrease) increase in amounts due to related parties		(2,404)	(100)	391
Cash generated from operations		54,022	69,485	90,264
Income taxes paid		—	(5,876)	(11,678)
Net cash from operating activities		54,022	63,609	78,586

	NOTES	Year ended 31 December		
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Investing activities				
Proceeds from disposals of property, plant and equipment		156	4	298
Interest received		200	97	1,268
Proceeds from disposals of an associate . . .		—	—	11,000
Payments for acquisition of property, plant and equipment		(10,888)	(23,778)	(22,000)
Advances to related parties		(5,903)	(8,143)	(13,891)
(Advances to) repayment from a shareholder		(1,230)	1,420	440
Acquisition of interest in an associate		—	(11,000)	—
Deposit paid for land use rights		—	(9,000)	—
Payments for land use rights		—	—	(22,289)
Development costs paid and capitalised . . .		—	—	(2,723)
Net cash used in investing activities		<u>(17,665)</u>	<u>(50,400)</u>	<u>(47,897)</u>
Financing activities				
Short-term bank loans raised		42,930	25,000	70,000
Proceeds from capital contributed to Old Shanghai Trading Entities		200	—	800
Proceeds from issue of shares		10	—	—
Repayment of short-term bank loans		(52,930)	(30,000)	(80,000)
Advance to a shareholder		(7,750)	(3,107)	(86)
Advance (to) from related parties		(8,378)	—	8,647
Interest paid		(1,364)	(1,179)	(846)
Cash and cash equivalents transferred to Old Shanghai Trading Entities		—	—	(274)
Net cash used in financing activities		<u>(27,282)</u>	<u>(9,286)</u>	<u>(1,759)</u>
Net increase in cash and cash equivalents . . .		9,075	3,923	28,930
Cash and cash equivalents at beginning of year		<u>16,466</u>	<u>25,541</u>	<u>29,464</u>
Cash and cash equivalents at end of year, represented by				
Bank balances and cash		<u>25,541</u>	<u>29,464</u>	<u>58,394</u>

E. NOTES TO THE FINANCIAL INFORMATION**1. CORPORATION INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on 27 January 2010. The registered office of the Company is located at PO Box 309 Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company is an investment holding company. The principal activities of the Group are the research, design, manufacture and sales of orthopaedic implants and medical instruments.

Pursuant to the Group Reorganisation, the Company became the holding company of the companies now comprising the Company and its subsidiaries on 10 March 2010. The Company, its subsidiaries (including the Shanghai Trading Business) have been under the common control by Ms. Xu throughout the Track Record Period or since their respective date of incorporation or establishment or up to 31 December 2009 or the date of disposal, where this is a shorter period. The Group comprising the Company and its subsidiaries (including the Shanghai Trading Business) resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information of the Group has been prepared on the basis as if the Company has always been the holding company of the companies and business comprising the Group throughout the Track Record Period, using the principles of merger accounting as set out in note 3 below.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows include the results and cash flows of the companies and business comprising the Group have been prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective date of incorporation or establishment, up to 31 December 2009 or the date of disposal or Transfer, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2007, 2008 and 2009 have been prepared to present the assets and liabilities of the companies and business comprising the Group as if the current group structure had been in existence as at those dates.

The Old Shanghai Trading Entities ceased operations on 31 December 2009 upon the completion of the Transfer, and they do not form part of the Group.

The Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the principal subsidiaries).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently applied Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and the related Interpretations (“IFRICs”) (“new and revised HKFRSs”) issued by HKICPA, which are effective for the accounting period beginning on 1 January 2009 except for HKAS 39 & HKFRS 7 (Amendments) Reclassification of Financial Assets, which are effective from 1 July 2008 but should not be applied before 1 July 2008 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments or interpretations which are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
HKAS 24 (Revised)	Related Party Disclosures ⁷
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Right Issues ⁵
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁴
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁶
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction ⁴
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁸
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁷
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁶

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

⁴ Effective for annual periods beginning on or after 1 January 2010

⁵ Effective for annual periods beginning on or after 1 February 2010

⁶ Effective for annual periods beginning on or after 1 July 2010

⁷ Effective for annual periods beginning on or after 1 January 2011

⁸ Effective for annual periods beginning on or after 1 January 2013

The Group has not early adopted these new and revised standards, amendments or interpretations in the preparation of the Financial Information. The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2009. HKAS 27 (Revised) will affect the Group's accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect

the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no materials impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost convention and in accordance with the accounting policies set out below which are in conformity with HKFRSs. These policies have been consistently applied throughout the Track Record Period.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Basis of combination

The combined financial information incorporate the financial information of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the combined statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Merger accounting for business combinations under common control

The business combinations under common control are accounted for in accordance with merger accounting. In applying merger accounting, Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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.

The results and assets and liabilities of associates are incorporated in these combined financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the combined statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Deposits received from purchasers prior to meeting the criteria for revenue recognition are included in the combined statement of financial position as liabilities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statements of comprehensive income in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised on the statements of financial position as lease prepayments and are amortised to the statements of comprehensive income on a straight-line basis over the periods of the respective lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity's functional currency (foreign currencies) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit scheme is charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statement of compressive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below), if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets not yet

available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group include financial assets held for trading.

At the end of the reporting period subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value arising from measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loan and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, amount due from a shareholder and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties, amount due to a shareholder and short-term bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by a group entity are recorded as the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following financial year.

Impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, 2008 and 2009, the carrying amounts of trade receivables were approximately RMB20,416,000, RMB45,018,000 and RMB53,170,000, respectively.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down of inventories in that period. As at December 2007, 2008 and 2009, inventories carried at net realisable value were approximately RMB1,647,000, RMB2,269,000 and RMB2,407,000, respectively.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of debt (which includes the short-term bank loans), cash and cash equivalents and equity attributable to owners of the Company, comprising issued paid-in capital/share capital, reserves and retained profits, as disclosed in the Financial Information.

The management of the Group reviews 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 the payment of dividends, new share issues as well as raising of short-term bank loans.

Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Financial assets			
Held for trading investments at FVTPL	30	12	—
Loan and receivables (including cash and cash equivalents)	<u>58,907</u>	<u>94,500</u>	<u>151,247</u>
Financial liabilities			
Amortised cost	<u>84,995</u>	<u>83,528</u>	<u>80,627</u>

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, amounts due from (to) related parties, amounts due from (to) a shareholder, short-term bank loans and bank balances and cash. Details of these financial instruments are disclosed in respective notes.

The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk management

The primary economic environment which most of the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, amounts due from/to related parties, amounts due to a shareholder and certain sales and purchases of the Group are denominated in Hong Kong Dollars ("HK\$"), United States Dollars ("US\$") and Euro ("EUR"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the respective reporting periods are as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Assets			
US\$	3,023	16,821	7,826
HK\$	<u>231</u>	<u>128</u>	<u>27,912</u>
Liabilities			
US\$	326	432	1,198
EUR	50	50	—
HK\$	<u>56,136</u>	<u>52,797</u>	<u>61,293</u>

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% change in RMB against US\$, EUR and HK\$. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit for the year.

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
US\$ impact	135	710	290
EUR impact	(2)	(2)	—
HK\$ impact	<u>(2,795)</u>	<u>(2,281)</u>	<u>(1,446)</u>

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to its variable-rate bank deposits. The Group has not entered into interest rate swaps to hedge against its exposure to changes in fair values of the borrowings. Currently, the Group does not have a specific policy to manage their interest rate risk, but will closely monitor the interest rate risk exposure in the future. In management's opinion, the Group does not have significant exposure to cash flow interest rate risk as at 31 December 2007, 2008 and 2009. Therefore, no sensitivity analysis has been presented.

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position at the end of the reporting period.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit quality, the financial conditions of the customers and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advance balance at the end of the reporting period 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.

The Group has concentration of credit risk in respect of bank balances. Approximately 84%, 93% and 92% of the bank balances as at 31 December 2007, 2008 and 2009, respectively, were deposited at two major banks, the credit risk on these liquid funds is limited because the counterparties are state-owned banks located in the PRC or banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk in respect of amounts due from related parties. In order to minimise the credit risk on amounts due from related parties, the management of the Group continuously monitor the credit quality and financial conditions of the related parties and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual advance balance at the end of each reporting period to ensure adequate impairment losses are made.

The Group has no significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers in the PRC. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	On demand or less than 6 months, representing total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000
At 31 December 2007			
Financial liabilities			
Trade and other payables	—	13,155	13,155
Amounts due to related parties	—	501	501
Amounts due to a shareholder.	—	56,339	56,339
Short-term bank loans.	7.776%	15,567	15,000
		<u>85,562</u>	<u>84,995</u>
At 31 December 2008			
Financial liabilities			
Trade and other payables	—	19,895	19,895
Amounts due to related parties	—	401	401
Amounts due to a shareholder.	—	53,232	53,232
Short-term bank loans.	7.776%	10,308	10,000
		<u>83,836</u>	<u>83,528</u>
At 31 December 2009			
Financial liabilities			
Trade and other payables	—	18,537	18,537
Amounts due to related parties	—	9,377	9,377
Amounts due to a shareholder.	—	52,713	52,713
		<u>80,627</u>	<u>80,627</u>

Fair value

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and
- the fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

At 31 December 2007 and 31 December 2008, fair values of held for trading investments were derived from quoted prices (unadjusted) in active markets for identical assets.

6. REVENUE AND SEGMENT INFORMATION

The information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment focuses specifically on different types of products. The Group's reportable segments are as follows:

- | | |
|---|--|
| (a) Trauma products | Surgical treatment for bone fractures due to accidents, pathological or other reasons |
| (b) Spine products | Surgical treatment for spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons |
| (c) Original equipment manufacturing ("OEM") products | Manufacturing orthopaedic products in accordance with customers' orders and specifications |
| (d) Others | Medical instrument and other components |

The following is an analysis of the Group's revenue and results by reportable segment for the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%
Segment revenue						
Trauma products	86,821	66.0	111,827	64.4	135,417	64.0
Spine products	27,899	21.2	26,640	15.3	31,366	14.8
OEM products	11,575	8.8	27,949	16.1	31,418	14.9
Others	5,287	4.0	7,276	4.2	13,284	6.3
Total revenue	<u>131,582</u>	<u>100.0</u>	<u>173,692</u>	<u>100.0</u>	<u>211,485</u>	<u>100.0</u>
Segment profit						
Trauma products	52,149	67.3	75,231	65.5	99,630	66.7
Spine products	18,260	23.5	21,939	19.1	25,658	17.2
OEM products	4,174	5.4	13,118	11.4	15,343	10.3
Others	2,998	3.8	4,565	4.0	8,592	5.8
Total segment profit	<u>77,581</u>	<u>100.0</u>	<u>114,853</u>	<u>100.0</u>	<u>149,223</u>	<u>100.0</u>
Unallocated income and other gains and losses . .	6,638		3,480		1,094	
Unallocated expenses	(28,735)		(42,084)		(55,088)	
Interest expense in relation to bank loans wholly repayable within five years	(1,364)		(1,179)		(846)	
Share of loss of an associate	—		(232)		(322)	
Profit before tax	54,120		74,838		94,061	
Income tax credit (expense)	1,595		(10,006)		(11,882)	
Profit for the year and total comprehensive income for the year	<u>55,715</u>		<u>64,832</u>		<u>82,179</u>	

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the Track Record Period.

Segment profit represents the gross profit earned by each segment. This is the measure reported to board of directors for the purposes of resource allocation and performance assessment.

The chief operating decision maker does not review the assets and liabilities by each segment for their resource allocation and performance assessment.

The Group's non-current assets are substantially located in the PRC, the place of domicile of relevant group entities.

Substantially all of the Group's revenue is derived from the PRC, the place of domicile of the Group entities, except for customer A in OEM products segment as mentioned below which is derived from the United States of America and insignificant revenue generated from export sales to other countries.

Information about major customer

Revenue from major customer which accounts for 10% or more of the Group's revenue are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Customer A in OEM products segment	*	27,949	31,418

* Less than 10% of the Group's total revenue

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Interest income	200	489	876
Foreign exchange gains	6,523	3,245	83
Foreign exchange losses	(198)	(453)	(114)
Loss on disposal of property, plant and equipment . . .	(249)	(1)	(15)
Fair value change of held for trading investments . . .	68	57	14
Others	294	143	250
	<u>6,638</u>	<u>3,480</u>	<u>1,094</u>

8. OTHER EXPENSES

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Donation.....	84	711	4
Legal and professional fees (note).....	—	—	2,359
Others.....	396	338	173
	<u>480</u>	<u>1,049</u>	<u>2,536</u>

Note: The amount mainly represented the legal and professional expenses incurred for the proposed listing of the shares of the Company on the Main Board of the Stock Exchange.

9. PROFIT BEFORE TAX

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Profit before tax has been arrived at after charging:			
Directors' remuneration (note 10).....	665	1,799	2,721
Staff costs.....	18,960	31,519	36,185
Staff's retirement benefit schemes contributions.....	1,196	2,152	2,840
Total staff costs.....	<u>20,821</u>	<u>35,470</u>	<u>41,746</u>
Cost of inventories recognised as expense.....	54,001	58,839	62,262
Depreciation of property, plant and equipment.....	6,234	8,301	9,967
Research and development expenses.....	5,133	6,516	9,710
Impairment losses on trade receivables.....	804	699	616
Operating lease rentals in respect of rented premises .	368	599	696
Release of prepaid lease payments.....	119	119	589
Auditor's remuneration.....	<u>83</u>	<u>92</u>	<u>163</u>

During the years ended 31 December 2007, 31 December 2008 and 31 December 2009, included in cost of inventories recognised as expense represented write-down of inventories to net realisable values of approximately RMB4,372,000, RMB4,835,000 and RMB408,000, respectively.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the directors of the Company for the Track Record Period were as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Directors' emoluments:			
- salaries and other benefits	663	1,795	2,711
- retirement benefit schemes contributions	2	4	10
	<u>665</u>	<u>1,799</u>	<u>2,721</u>
		Retirement benefit schemes contributions	Total
	Salaries and other benefits		
	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2007			
Mr. Qian (spouse of Ms. Xu)	320	—	320
Ms. Xu	71	2	73
Mr. Cai Yong	176	—	176
Ms. Ren Feng Mei	96	—	96
	<u>663</u>	<u>2</u>	<u>665</u>
For the year ended 31 December 2008			
Mr. Qian	1,239	—	1,239
Ms. Xu	119	2	121
Mr. Cai Yong	187	2	189
Ms. Ren Feng Mei	250	—	250
	<u>1,795</u>	<u>4</u>	<u>1,799</u>
For the year ended 31 December 2009			
Mr. Qian	1,056	—	1,056
Ms. Xu	406	4	410
Mr. Cai Yong	549	6	555
Ms. Ren Feng Mei	700	—	700
	<u>2,711</u>	<u>10</u>	<u>2,721</u>

The five highest paid individuals included two, three and two directors of the Group, for each of the years ended 31 December 2007, 2008 and 2009, respectively. Details of whose emoluments are set out above. The emoluments of the remaining individuals during the Track Record Period were as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Employees			
- salaries and other benefits	914	800	2,833
- retirement benefit schemes contributions	—	5	33
	<u>914</u>	<u>805</u>	<u>2,866</u>

Their emoluments were within the following bands:

	Year ended 31 December		
	2007	2008	2009
	No. of employees	No. of employees	No. of employees
HK\$nil to HK\$1,000,000	3	2	2
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>—</u>	<u>1</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Track Record Period.

11. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC enterprise income tax ("EIT")	—	8,571	12,182
Deferred tax charge (credit):			
Current year (note 17)	(1,595)	1,435	(300)
	<u>(1,595)</u>	<u>10,006</u>	<u>11,882</u>

Trauson Hong Kong and Orthmed Hong Kong were incorporated in Hong Kong and have had no assessable profits subject to Hong Kong profits tax since their incorporation.

Trauson Longcheng and Trauson Liyang were established in the PRC and have had no assessable profits subject to the PRC EIT since their establishment.

PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Trauson Jiangsu and Orthmed Changzhou, being both Foreign Investment Enterprise registered in Changzhou, Jiangsu in the PRC, are entitled to an exemption from EIT for two years starting from their first profit-making year, followed by a 50% tax relief for the following three years. Trauson Jiangsu was entitled to and enjoyed the first tax exemption year in 2006, and a 50% tax relief for the three years ending 31 December 2010. Orthmed Changzhou was entitled to and enjoyed the first tax exemption year in 2008, and a 50% tax relief for the three years ending 31 December 2012.

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the “New Tax Law”) by Order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law, which have changed the income tax rate to 25% for all the PRC enterprises from 1 January 2008.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No. 39), the tax concessions of Trauson Jiangsu and Orthmed Changzhou are still applicable under the New Tax Law. Therefore, the applicable income tax rate for Trauson Jiangsu would be 12.5% for the three years from 2008 to 2010, while the applicable income tax rate for Orthmed Changzhou would be 12.5% for the three years from 2010 to 2012.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are “non-PRC tax resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. Deferred tax on withholding income tax has been provided for the undistributed profits of PRC entities, amounting to RMB2,318,000 and RMB3,273,000 for the year ended 31 December 2008 and 31 December 2009, respectively, in accordance with the dividend amount the directors anticipate to distribute for such profits from its PRC subsidiaries in the foreseeable future.

The tax charge for the Track Record Period can be reconciled to profit before tax as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Profit before tax	54,120	74,838	94,061
Tax at the PRC income tax rate (2007: 33%, 2008 and 2009: 25%)	17,860	18,710	23,515
Tax effect of share of loss of an associate	—	58	81
Tax effect of expenses not deductible for tax purpose	—	879	464
Tax effect of income not taxable for tax purpose	(2,149)	(799)	—
Tax effect of tax losses not recognised	1,033	512	757
Effect of tax exemptions granted to PRC subsidiaries	(16,744)	(11,066)	(15,488)
Effect of a 50% tax reduction granted to PRC subsidiaries	—	(406)	(576)
Differential tax rate on temporary differences	(784)	(200)	(144)
Deferred tax on withholding income tax on undistributed profits	(811)	2,318	3,273
Taxation for the year	<u>(1,595)</u>	<u>10,006</u>	<u>11,882</u>

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record Period is based on the following:

	Year ended 31 December		
	2007	2008	2009
Profits			
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	<u>55,715</u>	<u>64,832</u>	<u>82,179</u>
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>339,046,875</u>	<u>562,500,000</u>	<u>562,500,000</u>

The number of shares for the purposes of basic earnings per share has been determined taking into account the shares of the Company issued upon the Group Reorganisation on 10 March 2010 as detailed in Appendix VI of the Prospectus.

The Group has no potential ordinary shares throughout the Track Record Period.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2007	36,985	29,364	5,909	3,311	322	75,891
Additions	1,819	6,570	1,502	235	762	10,888
Disposals	—	(596)	—	—	—	(596)
Transfers	322	609	—	—	(931)	—
At 31 December 2007	39,126	35,947	7,411	3,546	153	86,183
Additions	2,117	5,616	1,486	4,088	10,471	23,778
Disposals	—	(8)	—	—	—	(8)
Transfers	—	10,624	—	—	(10,624)	—
At 31 December 2008	41,243	52,179	8,897	7,634	—	109,953
Additions	772	2,295	2,269	746	15,918	22,000
Disposals	—	(420)	(197)	(457)	—	(1,074)
Disposal of a subsidiary	(9,533)	—	(406)	—	—	(9,939)
Transfer of the Old Shanghai Trading Entities	—	—	(457)	(1,128)	—	(1,585)
Transfers	—	21	—	—	(21)	—
At 31 December 2009	<u>32,482</u>	<u>54,075</u>	<u>10,106</u>	<u>6,795</u>	<u>15,897</u>	<u>119,355</u>
DEPRECIATION						
At 1 January 2007	2,923	4,593	1,452	1,071	—	10,039
Provided for the year	2,097	2,559	1,072	506	—	6,234
Eliminated on disposals	—	(191)	—	—	—	(191)
At 31 December 2007	5,020	6,961	2,524	1,577	—	16,082
Provided for the year	2,224	3,708	1,504	865	—	8,301
Eliminated on disposals	—	(3)	—	—	—	(3)
At 31 December 2008	7,244	10,666	4,028	2,442	—	24,380
Provided for the year	2,195	4,900	1,660	1,212	—	9,967
Eliminated on disposals	—	(226)	(115)	(420)	—	(761)
Eliminated on disposal of a subsidiary	(2,943)	—	(182)	—	—	(3,125)
Eliminated on Transfer of Old Shanghai Trading Entities	—	—	(284)	(334)	—	(618)
At 31 December 2009	<u>6,496</u>	<u>15,340</u>	<u>5,107</u>	<u>2,900</u>	<u>—</u>	<u>29,843</u>
CARRYING VALUES						
At 31 December 2007	<u>34,106</u>	<u>28,986</u>	<u>4,887</u>	<u>1,969</u>	<u>153</u>	<u>70,101</u>
At 31 December 2008	<u>33,999</u>	<u>41,513</u>	<u>4,869</u>	<u>5,192</u>	<u>—</u>	<u>85,573</u>
At 31 December 2009	<u>25,986</u>	<u>38,735</u>	<u>4,999</u>	<u>3,895</u>	<u>15,897</u>	<u>89,512</u>

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account residual value, at the following rates per annum:

Buildings	4.5%
Plant and machinery	9.0%
Furniture, fixtures and equipment	18.0%
Motor vehicles	18.0%

As at 31 December 2007 and 2008, the Group pledged its buildings with net book values of approximately RMB32,374,000 and RMB17,356,000, respectively (31 December 2009: Nil) to a bank to secure banking facilities granted to the Group.

14. PREPAID LEASE PAYMENTS

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At beginning of year	5,415	5,296	5,177
Additions during the year	—	—	31,289
Charged to combined statement of comprehensive income for the year	(119)	(119)	(589)
Disposal of a subsidiary	—	—	(309)
At end of year	5,296	5,177	35,568
Less:			
- Land use rights classified as held for sale	—	—	(14,988)
- Amount to be amortised within one year	(119)	(119)	(432)
Non-current portion	<u>5,177</u>	<u>5,058</u>	<u>20,148</u>

The land use rights are related to land in the PRC under medium-term lease.

At 31 December 2008, the Group has paid a deposit of approximately RMB9,000,000 for the acquisition of land use rights which the title was obtained on 8 April 2009.

On 15 December 2009, the Group entered into a conditional agreement with Wujin Reserve Centre (武進區土地儲備中心), an independent third party and an institution directly under the People's Government of Wujin District, for the disposal of land use rights with a carrying amount at RMB14,988,000 at 31 December 2009 for consideration of RMB14,988,000, subject to the successful onwards sale of the land use rights by way of a public auction. Wujin Reserve Centre will coordinate an auction of the land use rights. Completion of the disposal of the land use rights is pending the closing of the public auction. In the opinion of the directors of the Company, such land use rights will be recovered principally through a sale transaction rather than through continuing use, as a result, the relevant land use rights have been classified as held for sale.

15. INTANGIBLE ASSET

	Development costs
	RMB'000
COST AND CARRYING VALUE	
At 1 January 2007, 2008 and 2009.....	—
Additions.....	<u>2,723</u>
At 31 December 2009.....	<u><u>2,723</u></u>

Development costs are internally generated during the year ended 31 December 2009. The Group commenced the development of certain new joint products and the corresponding development costs have been recognised as intangible assets. The intangible assets will be amortised over their estimated useful lives upon completion of development activities and when the intangible assets are available for use in normal course of business.

16. INTEREST IN AN ASSOCIATE

On 3 April 2008, Trauson Jiangsu acquired 40% of the equity interest of Jiangsu Duoliang Venture Investment Co., Ltd. ("Duoliang Investment"), a company with limited liability established in the PRC, for an aggregate consideration of RMB11,000,000. The principal activities of Duoliang Investment are engaged in manufacturing and sales of biological materials. As part of the Group Reorganisation, the Group disposed of its interest in Duoliang Investment to Mr. Qian for an aggregate consideration of RMB11,000,000 in September 2009. The gain on disposal was considered to be capital contribution and was recognised as a special reserve.

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Cost of unlisted investment in an associate.....	—	11,000	—
Share of post-acquisition loss.....	<u>—</u>	<u>(232)</u>	<u>—</u>
Share of net assets.....	<u><u>—</u></u>	<u><u>10,768</u></u>	<u><u>—</u></u>

The summarised consolidated financial information in respect of the Group's associate is set out below:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Total assets	—	32,581	—
Total liabilities	—	9,401	—
Net assets	—	23,180	—
Group's share of net assets of associate	—	10,768	—
			Period from 1 January to 30 September
	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Revenue	—	863	1,732
Loss for the year/period	—	580	805
Group's share of the associate's loss for the year/period	—	232	322

17. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the Track Record Period:

	Write-down of inventories	Other provisions	Withholding tax on undistributed profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	1,054	—	—	1,054
Credit to combined statement of comprehensive income for the year (note 11)	546	238	811	1,595
At 31 December 2007	1,600	238	811	2,649
Credit (charge) to combined statement of comprehensive income for the year (note 11)	604	279	(2,318)	(1,435)
At 31 December 2008	2,204	517	(1,507)	1,214
Reversal upon payment of withholding tax	—	—	3,405	3,405
Credit to combined statement of comprehensive income for the year (note 11)	52	116	(3,273)	(3,105)
At 31 December 2009	2,256	633	(1,375)	1,514

For the purposes of presentation in the combined statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance for financial report presentation purposes.

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Deferred tax assets	2,649	3,532	2,889
Deferred tax liabilities	—	2,318	1,375
	<u>2,649</u>	<u>1,214</u>	<u>1,514</u>

Except for the PRC withholding income tax provided as above, no deferred taxation has been provided for the accumulated profits of approximately RMB5,692,000 and RMB7,797,000 as at 31 December 2008 and 2009, respectively, which were derived from the PRC entities since 1 January 2008 as the directors of the Company anticipate that no dividends will be distributed from these profits in the foreseeable future.

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

As at the end of each reporting period, the Group had no other significant unprovided deferred taxation.

18. INVENTORIES

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Raw materials	12,151	13,000	14,539
Work-in-progress	6,847	13,627	15,517
Finished goods	<u>20,164</u>	<u>16,997</u>	<u>13,501</u>
	<u>39,162</u>	<u>43,624</u>	<u>43,557</u>

19. TRADE AND OTHER RECEIVABLES

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables	21,220	46,521	55,289
Less: Allowance for doubtful debts	(804)	(1,503)	(2,119)
	<u>20,416</u>	<u>45,018</u>	<u>53,170</u>
Advance to suppliers	2,369	1,818	12,240
Other receivables	2,955	3,138	2,324
Deposits	1,699	1,650	1,433
Prepaid expenses	542	428	173
	<u>27,981</u>	<u>52,052</u>	<u>69,340</u>

The Group allows credit period ranging from 0 to 90 days to its trade customers. The ageing of trade receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, is as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
0 to 90 days	15,371	35,513	39,460
91 to 180 days	3,059	2,712	6,871
181 to 360 days	1,911	5,359	5,294
Over 360 days	75	1,434	1,545
	<u>20,416</u>	<u>45,018</u>	<u>53,170</u>

Included in the Group's trade receivables are debtors with a carrying amount of RMB5,045,000, RMB9,505,000 and RMB13,710,000 as at 31 December 2007, 2008 and 2009, respectively, which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The trade receivables past due but not impaired are aged over 90 days based on the invoice date at the end of the reporting period, and their ageing analysis are set out in the preceding table.

Movement in the allowance for doubtful debts:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	—	804	1,503
Impairment losses recognised on receivables	804	699	616
Balance at end of the year	<u>804</u>	<u>1,503</u>	<u>2,119</u>

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors believe that no further allowance is required.

The Group's trade receivables that were denominated in US\$, foreign currency of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables denominated in US\$	<u>2,188</u>	<u>14,918</u>	<u>6,542</u>

20. AMOUNTS DUE FROM RELATED PARTIES

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trading in nature			
Plusrite Electric (Jiangsu) Co., Ltd. ("Plusrite Jiangsu") (note a)	—	7	—
Shanghai Rebone Biomaterials Co., Ltd. ("Shanghai Rebone") (note a)	—	3	—
Metro Enterprises Corporation ("Metro Enterprises") (note b)	<u>—</u>	<u>574</u>	<u>—</u>
	<u>—</u>	<u>584</u>	<u>—</u>
Non-trading in nature			
Plusrite Jiangsu (note a)	5,000	5,279	—
Duoliang Investment (note a)	—	7,563	9,706
Mr. Qian (note c)	223	216	—
Changzhou Chi Cheng New Building Materials Co., Ltd. ("Changzhou Chi Cheng") (note d)	500	500	—
Changzhou Cofey Refrigeration Equipment Co., Ltd. ("Changzhou Cofey") (note d)	150	650	—
Changzhou Wujin Niutang Light Bulb Factory ("Changzhou Light") (note d)	30	230	—
Fully Creation Investment Limited ("Fully Creation") (note e)	<u>—</u>	<u>—</u>	<u>27,779</u>
	<u>5,903</u>	<u>14,438</u>	<u>37,485</u>
	<u>5,903</u>	<u>15,022</u>	<u>37,485</u>

	Maximum amount outstanding during the year		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Plusrite Jiangsu	5,000	19,800	8,000
Duoliang Investment	—	7,563	9,706
Mr. Qian	788	2,000	11,000
Fully Creation	—	—	27,779

Note:

(a) Plusrite Jiangsu is wholly owned by Ms. Xu and Shanghai Rebone is a subsidiary of Duoliang Investment and Mr. Qian holds 60.4% equity interest of Duoliang Investment. The non-trading balances with Plusrite Jiangsu and Duoliang Investment represented loans which carried a fixed interest rate of 5.58% per annum for both year 2007 and 2008. At 31 December 2008, interest due from Plusrite Jiangsu and Duoliang Investment was RMB279,000 and RMB113,000, respectively. The balances outstanding at 31 December 2008 were unsecured and repayable on demand and were fully recovered in 2009.

During the year 2009, the Group has made other non-trading advances to Duoliang Investment, which was unsecured, interest-free and repayable on demand. The balance had been fully recovered before the proposed listing of the Company's shares on the Main Board of the Stock Exchange.

(b) Metro Enterprises is wholly owned by Mr. Qian Xiao Jin, son of Mr. Qian and Ms. Xu. The balance represented advance made for purchase of raw materials, which is denominated in US\$, foreign currency of the relevant group entities.

(c) The amount due from Mr. Qian represented advances provided which is unsecured, non-interest bearing and repayable on demand.

(d) Changzhou Cofey and Changzhou Chi Cheng are beneficially owned by Ms. Xu's brother. Changzhou Light is beneficially owned by Mr. Qian's brother. The balances represented advances provided which are unsecured, non-interest bearing and repayable on demand.

(e) Fully Creation is wholly owned by Mr. Qian. The balances represent advances provided and the aggregate consideration to be received in respect of Trauson Liyang's disposal in December 2009. The balances are unsecured, non-interest bearing and repayable on demand, which are denominated in HK\$, foreign currency of the relevant group entities. The balances had been fully recovered before the proposed listing of the Company's shares on the Main Board of the Stock Exchange.

The ageing analysis of the amounts due from related parties which are trading in nature is as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
0 to 90 days	—	581	—
91 to 180 days	—	3	—
	—	584	—

The Group allows a credit period ranging from 0 to 90 days for the amounts due from related parties of a trade nature. The amounts due from related parties are unsecured, non-interest bearing and to be settled in accordance with the agreed credit term. The amounts that are overdue but not impaired at the end of each reporting period are insignificant. All these amounts were fully recovered in 2009.

21. AMOUNT DUE FROM A SHAREHOLDER

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Ms. Xu	<u>3,150</u>	<u>1,730</u>	<u>—</u>
	Maximum amount outstanding during the year		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Ms. Xu	<u>3,150</u>	<u>3,150</u>	<u>1,730</u>

The amount due from a shareholder represented advances provided by the Old Shanghai Trading Entities, which were unsecured, non-interest bearing and repayable on demand. The balance was retained by the Old Shanghai Trading Entities that has been treated as deemed distribution to the controlling shareholder upon the Transfer in 2009.

22. HELD FOR TRADING INVESTMENTS

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Listed securities at fair value:			
Equity securities listed in the PRC.....	<u>30</u>	<u>12</u>	<u>—</u>

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less which carried interest at market rates ranging from 0.10% to 1.15% per annum, 0.10% to 1.71% per annum and 0.10% to 1.71% per annum at 31 December 2007, 2008 and 2009, respectively.

The Group's bank balances and cash that were denominated in currencies other than the functional currency of the relevant group entities are set out below:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Denominated in:			
US\$	835	1,078	1,247
HK\$.....	<u>205</u>	<u>103</u>	<u>108</u>

Certain bank balances and cash of the Group of approximately RMB24,501,000, RMB28,283,000 and RMB57,039,000 at 31 December 2007, 2008 and 2009, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is controlled by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

24. TRADE AND OTHER PAYABLES

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade payables	7,520	10,358	8,900
Advance from customers	3,833	7,695	7,090
Payroll payables	4,667	8,554	8,612
Accrued expenses	3,179	5,241	7,248
Other tax liabilities	1,682	3,521	3,836
Other payables	968	983	1,025
	<u>21,849</u>	<u>36,352</u>	<u>36,711</u>

Trade payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the date when the goods are received and accepted at the end of the reporting period. The ageing of trade payables is as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Age			
0 to 90 days	6,736	7,072	8,237
91 to 180 days	335	1,335	142
181 to 360 days	296	1,732	401
Over 360 days	153	219	120
	<u>7,520</u>	<u>10,358</u>	<u>8,900</u>

The Group's trade payables that were denominated in US\$, foreign currency of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade payables denominated in US\$	<u>60</u>	<u>244</u>	<u>662</u>

25. AMOUNTS DUE TO RELATED PARTIES

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trading in nature			
Changzhou Cofey	452	313	184
Biorth Incorporation ("Biorth") (note a)	49	83	25
Metro Enterprises	—	—	583
Shanghai Rebone	—	5	—
	<u>501</u>	<u>401</u>	<u>792</u>
Non-trading in nature			
Plusrite Jiangsu (note b)	—	—	8,585
	<u>501</u>	<u>401</u>	<u>9,377</u>

Note:

- (a) Biorth is wholly owned by Mr. Qian Song, son of Mr. Qian and Ms. Xu.
- (b) The balance represents advances received which is unsecured, non-interest bearing and repayable on demand. The balance had been settled before the proposed listing of the Company's shares on the Main Board of the Stock Exchange.

The ageing analysis of the amount due to related parties which are trading in nature is as follows:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
0 to 90 days	387	300	265
91 to 180 days	114	101	—
181 to 360 days	—	—	527
	<u>501</u>	<u>401</u>	<u>792</u>

The amounts due to related parties are unsecured, non-interest bearing and to be settled in accordance with an agreed credit term ranging from 0 to 90 days for those trading in nature.

The Group's amounts due to related parties that were denominated in US\$, foreign currency of the relevant group entities, were re-translated in RMB and stated for reporting purpose as:

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Amounts due to related parties denominated in US\$. .	<u>49</u>	<u>83</u>	<u>608</u>

26. AMOUNTS DUE TO A SHAREHOLDER

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Ms. Xu	<u>56,339</u>	<u>53,232</u>	<u>52,713</u>

The amounts due to a shareholder represented loan provided by the shareholder for investment as capital injection in the PRC subsidiaries. They are unsecured, non-interest bearing and repayable on demand and included RMB56,136,000, RMB52,797,000 and RMB52,713,000 as at 31 December 2007, 2008 and 2009, respectively, which are denominated in HK\$, foreign currency of the relevant group entities. The balances had been fully settled before the proposed listing of the Company's shares on the Main Board of the Stock Exchange.

27. SHORT-TERM BANK LOANS

The short-term bank loans are secured (see note 13) and carry fixed interest rate at 7.7760% and 7.7760% per annum at 31 December 2007 and 2008, respectively.

28. SHARE CAPITAL

The share capital at 31 December 2007, 2008 and 2009 represents the aggregate share capital of Trauson Hong Kong and Orthmed Hong Kong, which are the then holding companies of the operating subsidiaries of the Group in the PRC, at the end of the respective reporting period.

	Trauson Hong Kong		Orthmed Hong Kong		Total
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000	Amount HK\$'000
Ordinary shares of HK\$1 each					
<i>Authorised</i>					
At 1 January 2007.....	10,000	10	—	—	
On 18 October 2007, incorporation of Orthmed Hong Kong.....	—	—	10,000	10	
At 31 December 2007, 2008 and 2009.....	<u>10,000</u>	<u>10</u>	<u>10,000</u>	<u>10</u>	
<i>Issued and fully paid</i>					
At 1 January 2007.....	10,000	10	—	—	10
On 18 October 2007, incorporation of Orthmed Hong Kong.....	—	—	10,000	10	10
At 31 December 2007, 2008 and 2009.....	<u>10,000</u>	<u>10</u>	<u>10,000</u>	<u>10</u>	<u>20</u>
					RMB'000
Presented as.....					<u>20</u>

29. DISPOSAL OF A SUBSIDIARY

The net assets of Trauson Liyang at the date of disposal were as follows:

	28 December 2009
	RMB
Net assets disposed of:	
Property, plant and equipment	6,814
Land use rights	309
Trade and other receivables	140
Bank balances and cash	135
Trade and other payables	(85)
	<u>7,313</u>
Gain on disposal recognised as special reserve	2,370
Total consideration	<u>9,683</u>
Satisfied by:	
Amount due from a related party	<u>9,683</u>
Net cash outflow arising on disposal:	
Cash consideration	—
Bank balances and cash disposed of	135
	<u>135</u>

30. CONTINGENT LIABILITIES

During the Track Record Period, the Group was named as defendants in certain court cases in which the Group was being sued by patients for damages suffered as a result of alleged unsatisfactory orthopaedic operations involving the Group's products. As at 31 December 2007, 2008 and 2009, such claims amounted to approximately RMB65 million, RMB2 million and RMB2 million respectively, except for one case of court litigation pursuant to which the plaintiff claimed unspecified damages for alleged unsatisfactory orthopaedic operation involving the Group's products. The directors of the Company are not able to quantify reliably such claim as at 31 December 2009.

After seeking legal opinion and taking into account the facts that (i) for cases that were settled (approximately 40% of the cases were settled before 31 December 2009), the Group has a history of winning substantially all cases as the plaintiffs could not prove the Group's products in questions to be defective or do not meet the required quality standards; and (ii) for one case which the Group was held liable, the amount paid by the Group is less than 1% of the relevant claim. As such, the directors of the Company are of the opinion that those unsettled claims are without merits and no provision is necessary.

31. OPERATING LEASES

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Minimum lease payments paid under operating leases in the year	<u>368</u>	<u>599</u>	<u>696</u>

Operating lease payments represented rentals payable by the Group for certain of its offices.

32. CAPITAL COMMITMENTS

	At 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	<u>—</u>	<u>984</u>	<u>3,109</u>
Capital expenditure in respect of the acquisition of land use rights contracted for but not provided in the Financial Information	<u>—</u>	<u>22,290</u>	<u>—</u>
	<u>—</u>	<u>23,274</u>	<u>3,109</u>

33. RETIREMENT BENEFITS SCHEME

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 21% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

During the Track Record Period, the total amounts contributed by the Group to the scheme and charged to the combined statements of comprehensive income represent contribution payable to the scheme by the Group at rates specified in the rules of the schemes and are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Amount contributed and charged to the combined statements of comprehensive income	<u>1,198</u>	<u>2,156</u>	<u>2,850</u>

As at 31 December 2007, 2008 and 2009, the contributions due in respect of the year that had not been paid over to the scheme were RMB757,000, RMB1,696,000 and RMB2,458,000, respectively.

34. RELATED PARTY TRANSACTIONS

Save for disclosed in notes 16, 20, 21, 25, 26 and 29, during the Track Record Period, the Group had the following related party transactions:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Continuing Transactions			
Purchase of lighting equipment			
Plusrite Jiangsu	<u>—</u>	<u>5</u>	<u>5</u>
Processing fee charge			
Changzhou Cofey	<u>472</u>	<u>839</u>	<u>504</u>
Discontinuing Transactions			
Sales of raw materials			
Plusrite Jiangsu	<u>—</u>	<u>6</u>	<u>5</u>
Sales of property, plant and equipment			
Plusrite Jiangsu	<u>—</u>	<u>—</u>	<u>48</u>
Purchase of raw materials			
Biorth	1,542	3,355	479
Metro Enterprises	—	1,179	5,949
Shanghai Rebone	—	271	—
	<u>1,542</u>	<u>4,805</u>	<u>6,428</u>
Interest income from loan			
Plusrite Jiangsu	105	279	420
Duoliang Investment	—	113	356
	<u>105</u>	<u>392</u>	<u>776</u>
Rental paid			
Ms. Xu	<u>368</u>	<u>599</u>	<u>696</u>

The directors of the Company represented that the above transactions would be discontinued after the listing of the Company's shares on the Stock Exchange, except for the purchase of lighting equipment from Plusrite Jiangsu and processing fee charged by Changzhou Cofey.

The remuneration of directors of the Company and other members of key management during the Track Record Period were as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Salaries and other benefits.	1,479	2,277	6,448
Retirement benefits scheme contributions	2	15	54
	<u>1,481</u>	<u>2,292</u>	<u>6,502</u>

F. ULTIMATE HOLDINGS COMPANY

Upon completion of the Group Reorganisation, the Company's ultimate holding company is Luna Group Holdings Limited, a company which is incorporated in the British Virgin Islands.

G. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period.

H. SUBSEQUENT EVENTS

1. On 8 March 2010, Trauson Hong Kong declared dividends of US\$1,960,000 to its then sole shareholder Ms. Xu, and the dividends were paid in May 2010.
2. As at the date of incorporation on 27 January 2010, one share was issued by the Company. Pursuant to the Group Reorganisation, on 10 March 2010, in consideration for the acquisition by the Company, through Trauson Holdings HK, of the entire issued share capital of Trauson Hong Kong and Orthmed Hong Kong from Ms Xu, the Company allotted and issued 562,499,999 Shares credited as fully paid up to Luna Group. On 19 March 2010, Honest Fame Investment Limited ("Honest Fame") acquired 55,940,625 of the Company's shares, representing 9.9% of the Company's then issued ordinary shares, from the Company's controlling shareholder at US\$17 million pursuant to a sale and purchase agreement dated 11 February 2010.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2009.

Yours faithfully

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to illustrate how the proposed Global Offering might have affected the financial position of the Group as at 31 December 2009 or the earnings per share of the Group for the six months ending 30 June 2010 after completion of the Global Offering.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the actual financial position, performance and condition of the Group during the Track Record Period or any future date or any future period.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the owners of the Company as of 31 December 2009 as if it had taken place on 31 December 2009 and based on the audited consolidated net tangible assets of the Group as of 31 December 2009 attributable to the equity holders of the Company as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of the Group as at 31 December 2009 attributable to the owners of the Company⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company per Share	
	RMB'000	RMB'000	RMB'000	RMB⁽³⁾	HK\$⁽⁴⁾
Based on an Offer Price of HK\$2.38 per Share	<u>233,370</u>	<u>362,037</u>	<u>595,407</u>	<u>0.79</u>	<u>0.91</u>
Based on an Offer Price of HK\$3.57 per Share	<u>233,370</u>	<u>550,420</u>	<u>783,790</u>	<u>1.05</u>	<u>1.19</u>

Notes:

- (1) The audited consolidated net tangible assets of the Group as at 31 December 2009 attributable to the owners of the Company represents the net assets less intangible assets of the Group as set out in the accountants' report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering, translated at RMB0.875 to HK\$1.000, are based on 187,500,000 new Shares at the Offer Price of HK\$2.38 and HK\$3.57 after deduction of the underwriting fees and the other related expenses payable by us. They do not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the Issue Mandate or the Repurchase Mandate.

- (3) The unaudited pro forma adjusted net tangible assets of the Group as at 31 December 2009 attributable to the owners of the Company per Share is based on 750,000,000 Shares expected to be in issue immediately following completion of the Global Offering. It does not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the Issue Mandate or the Repurchase Mandate.
- (4) The unaudited pro forma adjusted net tangible assets per Share amount in RMB are converted to HK\$ with exchange rate at RMB0.875 to HK\$1.000.
- (5) The unaudited pro forma adjusted net tangible assets of the Group does not take into account a dividend of US\$2.0 million (equivalent to approximately RMB13.4 million) declared by Trauson Hong Kong on 8 March 2010 which was paid to its then shareholder, Ms Xu in May 2010.
- (6) The property interests of the Group as at 30 April 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. By comparing the valuation of the Group's property interests of approximately RMB111.1 million as set out in Appendix IV to this prospectus and the unaudited carrying amounts of these properties of approximately RMB66.1 million as at 30 April 2010, the valuation surplus is approximately RMB45 million, which has not been included in the above net tangible assets of the Group. The revaluation surplus will not be incorporated in the Group's consolidated financial statements. If the revaluation surplus was recorded in the Group's consolidated financial statements, the annual depreciation of the Group would be increased by approximately RMB1.1 million.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 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 2010. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecasted consolidated profit for the six months
ending 30 June 2010 attributable to
the owners of our Company⁽¹⁾⁽²⁾not less than RMB34 million
(equivalent to approximately HK\$39 million)

Unaudited pro forma forecasted earnings per Share
for the six months ending 30 June 2010⁽³⁾not less than RMB0.05
(equivalent to approximately HK\$0.05)

Notes:

- (1) Our forecasted consolidated profit for the six months ending 30 June 2010 attributable to the owners of our Company is extracted from the section headed “Financial Information — Profit forecast for the six months ending 30 June 2010” in this prospectus. The bases and assumptions on which the above profit forecast for the six months ending 30 June 2010 have been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the forecasted consolidated profit for the six months ending 30 June 2010 attributable to the owners of our Company based on the unaudited management accounts of our Group for the three months ended 31 March 2010 and a forecast of the consolidated results of our Group for the remaining three months ending 30 June 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 3 of the accountants’ report, the text of which is set out in Appendix I to this prospectus.
- (2) The above profit forecast for the six months ending 30 June 2010 takes into account the estimated expenses to be borne by our Company of approximately RMB12.1 million in relation to the Global Offering.
- (3) The calculation of unaudited pro forma forecasted earnings per Share is calculated by dividing the forecasted consolidated profit for the six months ending 30 June 2010 attributable to owners of our Company, translated at RMB0.875 to HK\$1.000, by a total of 750,000,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued under the Global Offering had been in issue on 1 January 2010 but without taking into account any Shares which may be allotted and issued or repurchased by us pursuant to the Over-allotment Option, the Issue Mandate and the Repurchase Mandate).

C. LETTER FROM REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

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ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF TRAUSON HOLDINGS COMPANY LIMITED

We report on the unaudited pro forma financial information of Trauson Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the global offering of 212,828,000 shares of HK\$0.10 each in the Company, might have affected the financial information presented, for inclusion in part A and part B of Appendix II to the prospectus dated 15 June 2010 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out on pages II-1 to II-3 of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 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.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the 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 has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 31 December 2009 or any future date; or
- the earnings per share of the Group for the six months ending 30 June 2010 or any future period.

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 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15 June 2010

The forecast of the consolidated profit attributable to the owners of our Company for the six months ending 30 June 2010 is set out in the section headed “Financial Information — Profit forecast for the six months ending 30 June 2010” in this prospectus.

A. BASIS AND ASSUMPTIONS

The forecast of the consolidated profit attributable to the owners of our Company for the six months ending 30 June 2010 prepared by our Directors is based on the unaudited management accounts of the Group for the three months ended 31 March 2010 and a forecast of the consolidated results of the Group for the remaining three months ending 30 June 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- (a) There will be no material changes in the existing political, fiscal or economic conditions in the countries in which our Group carries on business or from which it buys or to which it sells.
- (b) There will be no material changes in laws, rules and/or regulations relevant to the healthcare industry in the PRC, including but not limited to governmental policies relating to price control, product liability, certification and production.
- (c) There will be no natural disaster during the forecast period which may have an impact on the sales forecast.
- (d) Exchange rates and interest rates will not differ materially from those presently prevailing.
- (e) There will be no material changes in the bases or rates of taxation in the PRC, the country that principal operations of the Group are located, and the PRC subsidiaries can continue to enjoy the tax incentives currently available to them. In addition, a 5% of withholding tax to be levied on the dividends to be payable is forecasted based on the profit of the PRC subsidiaries under the relevant tax rules and regulations.

Set out below are texts of letters received by our Directors from (i) Deloitte Touche Tohmatsu, the auditors and reporting accountants of the Company, and (ii) UBS prepared for the purpose of inclusion in this prospectus in connection with the profit forecast of the Group for the six months ending 30 June 2010.

B. LETTER FROM REPORTING ACCOUNTANTS

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

15 June 2010

The Directors
Trauson Holdings Company Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of Trauson Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ending 30 June 2010 attributable to owners of the Company (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the prospectus dated 15 June 2010 issued by the Company (the “Prospectus”). The Forecast is prepared based on the results shown in the unaudited management accounts of the Group for the three months ended 31 March 2010, and a forecast of the results for the remaining three months of the six months ending 30 June 2010.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in part A of 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 of the financial information on the Group for the three years ended 31 December 2009 as set out in Appendix I to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, which we have received from UBS AG, Hong Kong Branch, the Sponsor, in connection with the forecast of our consolidated profits attributable to the owners of our Company for the six months ending 30 June 2010.



52nd Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong

15 June 2010

The Directors
Trauson Holdings Company Limited

Dear Sirs

We refer to the forecast of the consolidated profit attributable to the owners of Trauson Holdings Company Limited (the “**Company**”) for the six months ending 30 June 2010 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated 15 June 2010 (the “**Prospectus**”).

We understand that the Profit Forecast has been prepared by the directors of the Company based on the unaudited management accounts of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2010 and a forecast of the consolidated results of the Group for the remaining three months ending 30 June 2010.

We have discussed with you the bases made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 15 June 2010 addressed to you and us from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully

For and on behalf of
UBS AG, Hong Kong Branch

Tim Cen
Managing Director

Philip Ho
Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 April 2010 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

15 June 2010

The Board of Directors
Trauson Holdings Company Limited
PO Box 309 Ugland House
Grand Cayman KY1-1104
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Trauson Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 April 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the properties, there are no market sales comparables readily available, the property interests in the Group I have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest in Group II which is under development, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the development.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published from time to time by the Hong Kong Institute of Surveyors; and the International Valuation Standards published from time to time by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests amendment. We have relied considerably on the advice given by the Company's PRC legal adviser — King and Wood, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No. Property	Capital value in existing state as at 30 April 2010 RMB
1. A parcel of land, 9 buildings and various structures No. 31 of Houlu Village Niutang Town Wujin District Changzhou City Jiangsu Province The PRC	15,697,000
2. A parcel of land, 5 buildings and various structures No. 177 Qinling Road Xinbei District Changzhou City Jiangsu Province The PRC	30,041,000
Sub-total:	<u>45,738,000</u>

Group II — Property interest held under development by the Group in the PRC

No. Property	Capital value in existing state as at 30 April 2010 RMB
3. A parcel of land and an office/industrial building under construction No. 9 Longmen Road Wujin Hi-Tech Zone Changzhou City Jiangsu Province The PRC	65,392,000
Sub-total:	<u>65,392,000</u>
Grand total:	<u><u>111,130,000</u></u>

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2010 RMB
1.	A parcel of land, 9 buildings and various structures No. 31 of Houlu Village Niutang Town Wujin District Changzhou City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 7,364 sq.m., 9 buildings and various ancillary structures erected thereon which were completed in various stages between 1995 and 2005.</p> <p>The buildings have a total gross floor area of approximately 12,994.85 sq.m.</p> <p>The buildings comprise 3 industrial buildings, an office/industrial building and 5 ancillary buildings.</p> <p>The structures mainly include boundary fences and roads.</p> <p>The land use rights of the property have been granted for a term expiring on 20 March 2054 for industrial use.</p>	The property is currently occupied by the Group for production and office purposes.	15,697,000 100% interest attributable to the Group: RMB15,697,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate - Wu Guo Yong (2006) Di No. 1201605, the land use rights of a parcel of land with a site area of approximately 7,364 sq.m. have been granted to Trauson (Jiangsu) Medical Instrument Company Limited ("Trauson Jiangsu"), a wholly-owned subsidiary of the Company, for a term expiring on 20 March 2054 for industrial use.
2. Pursuant to a Building Ownership Certificate - Chang Fang Quan Zheng Wu Zi Di No. 13001652, 9 buildings with a total gross floor area of approximately 12,994.85 sq.m. are owned by Trauson Jiangsu.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
 - a. Trauson Jiangsu has obtained the land use rights and building ownership rights of the property and is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights and the building ownership rights of the property during the land tenure; and
 - b. no land use rights and building ownership rights of the property are found to be subject to any mortgage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2010 RMB
2.	A parcel of land, 5 buildings and various structures No. 177 Qinling Road Xinbei District Changzhou City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 40,567.1 sq.m. and 5 buildings and various ancillary structures erected thereon which were completed in various stages between 2003 and 2005.</p> <p>The buildings have a total gross floor area of approximately 13,958.84 sq.m.</p> <p>The buildings comprise an industrial building, an office building and 3 ancillary buildings.</p> <p>The structures mainly include boundary fences and roads.</p> <p>The land use rights of the property have been granted for a term expiring on 13 January 2053 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	30,041,000 100% interest attributable to the Group: RMB30,041,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate - Chang Guo Yong (2005 Bian) Di No. 00696, the land use rights of a parcel of land with a site area of approximately 40,567.1 sq.m. have been granted to Changzhou Orthmed Medical Instrument Company Limited ("Orthmed Changzhou"), a wholly-owned subsidiary of the Company, for a term expiring on 13 January 2053 for industrial use.
2. Pursuant to 2 Building Ownership Certificates - Chang Fang Quan Zheng Xin Zi Di Nos. 00025763 and 00025764, 5 buildings with a total gross floor area of approximately 13,958.84 sq.m. are owned by Orthmed Changzhou.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
 - a. Orthmed Changzhou has obtained the land use rights and building ownership rights of the property and is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights and the building ownership rights of the them during the land tenure; and
 - b. no land use rights and building ownership rights of the property are found to be subject to any mortgage.

VALUATION CERTIFICATE

Group II — Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2010 RMB
3.	A parcel of land and an office/industrial building under construction No. 9 Longmen Road Wujin Hi-Tech Zone Changzhou City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 59,180.6 sq.m. and an office/industrial building which was being constructed thereon as at the date of valuation.</p> <p>As advised by the Company, the building is scheduled to be completed before the end of 2010.</p> <p>Upon completion, the building will have a gross floor area of approximately 32,153 sq.m.</p> <p>As advised by the Company, the estimated development cost of the property is about RMB54,000,000 (excluding finance and other indirect cost), of which about RMB39,000,000 had been incurred up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term expiring on 3 March 2059 for industrial use.</p>	The property is currently under construction for production and office purposes.	65,392,000 100% interest attributable to the Group: RMB65,392,000

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 15 December 2008, the land use rights of a parcel of land with a site area of approximately 118,655.4 sq.m. were contracted to be granted to Trauson Medical Instrument (China) Company Limited (“Trauson China”) for industrial use. As advised by the Company, Trauson China is the former name of Trauson Longcheng Medical Instrument (Changzhou) Company Limited (“Trauson Longcheng”), a wholly-owned subsidiary of the Company.
- As advised by the Company, Trauson Longcheng has been merged into Trauson Jiangsu, all the assets and business of Trauson Longcheng have been transferred to Trauson Jiangsu and Trauson Longcheng has been subsequently deregistered.
- Pursuant to a State-owned Land Use Rights Acquisition Agreement dated 15 December 2009 entered into between Wujin Land Purchase and Reserve Centre (“Wujin Reserve Centre”) (常州市武進土地收購儲備中心) and Trauson China, a portion of the land parcel stated in note 1 with a site area of approximately 59,474.8 sq.m. were purchased by Wujin Reserve Centre.

4. Pursuant to a State-owned Land Use Rights Certificate - Wu Guo Yong (2010) Di No. 1201666, the land use rights of the remaining portion of the land parcel stated in note 1 with a site area of approximately 59,180.6 sq.m. have been granted to Trauson Jiangsu for a term expiring on 3 March 2059 for industrial use.
5. Pursuant to a Construction Work Planning Permit - 320400200950050 in favour of Trauson Jiangsu, a building with a gross floor area of approximately 32,153 sq.m. has been approved for construction.
6. Pursuant to a Construction Work Commencement Permit - 320483200907090101 in favour of Trauson Jiangsu, permission by the relevant local authority was given to commence the construction work.
7. Our estimated Gross Development Value of the property assuming it had been completed and ready for immediately occupancy as at the date of valuation and all outstanding development costs have been fully paid and settled, is the sum of RMB70,630,000.
8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
 - a. Trauson Jiangsu has obtained the land use rights of the property stated in note 4 and is entitled to occupy, use and mortgage the land use rights during the land tenure. Upon satisfaction of the conditions for development and completion of 25% or above of the total investment stipulated under the grant contract, Trauson Jiangsu may transfer or otherwise dispose of the land use rights in accordance with the laws.
 - b. The Group has legally obtained the relevant construction permits in relation to the construction of the property.
 - c. No land use rights and the construction of the property are found to be subject to any mortgage.

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of association**

The Memorandum of Association of the Company was adopted on 10 June 2010, conditional upon the Listing, and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VII in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection”.

2 Articles of Association

The Articles of Association of the Company were adopted on 10 June 2010, conditional upon the Listing, and include provisions to the following effect:

2.1 Classes of shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK\$10,000,000,000 divided into 100,000,000,000 shares of HK\$0.10 each.

2.2 Directors**(a) Power to allot and issue Shares**

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
 - (C) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of

the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been

given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net

proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law ; and
- (c) sub-divide its shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Cayman Companies Law.

2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own Shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.13 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distributions

Subject to the Cayman Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12

months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**1 Introduction**

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 January 2010 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of books and records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary owning shares in parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14 Takeovers

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16 Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18 Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has applied for, and can expect to obtain, an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; and
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of 20 years from the date of issuance.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20 General

Maples and Calder the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

We were incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law on 27 January 2010. We have established a place of business in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, and have been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 30 April 2010. Ngai Wai Fung has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Company in Hong Kong is the same as its registered place of business in Hong Kong.

As we were incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and the Company's constitution which comprises a memorandum of association and the Articles of Association. A summary of the relevant provisions of our memorandum of association and Articles of Association and certain relevant aspects of Cayman Islands Companies Law are set out in "Appendix V — Summary of the Constitution of the Company and Cayman Companies Law" to this prospectus.

B. Changes in share capital of our Company

As at the date of our incorporation, our authorised share capital was HK\$10,000,000,000, divided into 100,000,000,000 shares of par value of HK\$0.10 each, of which one Share was allotted and issued to Mapcal Limited as the sole subscriber. On 27 January 2010, the one Share was transferred from Mapcal Limited to Ms Xu. On 4 February 2010, Ms Xu further transferred the one Share to Luna Group, a company wholly owned by Ms Xu.

On 10 March 2010, in consideration for the acquisition by the Company, through Trauson Holdings HK, of the entire issued share capital of Trauson Hong Kong and Orthmed Hong Kong from Ms Xu, the Company allotted and issued 562,499,999 Shares credited as fully paid up to Luna Group.

On 19 March 2010, Luna Group transferred 55,940,625 Shares, representing approximately 9.9% of the then issued share capital of our Company, to Honest Fame.

Immediately following the completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK\$10,000,000,000 divided into 100,000,000,000 Shares, of which 750,000,000 Shares will be issued fully paid or credited as fully paid.

Save as disclosed in this Appendix, there has been no alteration in our share capital since our incorporation.

C. Resolutions in writing of the shareholders of our Company

Pursuant to the written resolutions passed by the shareholders of our Company on 10 June 2010, the following matters, among other things, were approved:

- (a) conditional upon (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue as mentioned in this prospectus; (ii) the Offer Price having been duly agreed in accordance with the terms of the Underwriting Agreements

- and the execution and delivery of the Underwriting Agreements; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with their terms or otherwise, the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus;
- (b) a general mandate was given to our Directors to exercise all the powers of the Company to allot, issue and deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue, any scrip dividend scheme or similar arrangement, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering but taking no account of Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option (the “Issue Mandate”);
 - (c) a general mandate was given to our Directors to exercise all the powers of the Company to purchase the Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares shall represent up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering but taking no account of Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option (the “Repurchase Mandate”);
 - (d) the Issue Mandate was extended by the addition to the aggregate nominal value of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering but taking no account of Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option; and
 - (e) the adoption of the Memorandum of Association and the Articles of Association of the Company.

Each of the Issue Mandate and the Repurchase Mandate will remain in effect until the earliest of: (1) the conclusion of our next annual general meeting; (2) the expiration of the period within which our next annual general meeting is required be held by applicable law or by the Articles of Association; and (3) the time when such mandate is revoked or varied by an ordinary resolution of our shareholders in a general meeting.

2. PURCHASE BY OUR COMPANY OF ITS OWN SECURITIES

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the purchase by us of our own securities.

A. Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to purchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

The Listing Rules provide that all purchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

(b) Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which, in the opinion of our Directors, are from time to time appropriate for us. However, there might be a material adverse impact on our working capital requirements as set out in this prospectus in the event that the Repurchase Mandate is exercised in full.

(c) Status of purchased securities

The listing of all purchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed.

(d) Connected persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective associates and a connected person shall not knowingly sell his securities to the company.

B. Reasons for purchases

Our Directors believe that it is in our and our shareholders' best interests for our Directors to have a general authority from shareholders to enable us to purchase Shares on the market. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our net asset value and/or our earnings per Share and will only be made when our Directors believe that such purchases will benefit us and our shareholders.

(a) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate on the basis of 750,000,000 Shares in issue immediately after completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-Allotment Option, could accordingly result in up to 75,000,000 Shares being purchased by us during the period prior to (1) the conclusion of our next annual general meeting; (2) the expiration of the period within which our next annual general meeting is required to be held by the applicable laws or by the Articles of Association; or (3) the revocation or variation of the Repurchase Mandate by ordinary resolution of shareholders in a general meeting, whichever occurs first.

(b) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective associates have any present intention to sell any Shares to us or our subsidiaries if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

If as a result of a purchase of Shares, a shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase.

No connected person of our Company has notified us that he has a present intention to sell Shares to us, nor has he undertaken not to do so if the Repurchase Mandate is exercised.

3. REORGANISATION

Please refer to the section headed "History and Development — Reorganisation" in this prospectus.

4. FURTHER INFORMATION ABOUT OUR SUBSIDIARIES**A. Our subsidiaries**

Our subsidiaries are listed in "Appendix I — Accountants' Report" to this prospectus.

B. Changes in share capital of our subsidiaries

Save as disclosed below, there has been no alteration in the share capital or registered capital of any of our subsidiaries within the two years preceding the date of this prospectus.

Trauson Holdings BVI

On 27 January 2010, Trauson Holdings BVI was incorporated in BVI. Trauson Holdings BVI is authorised to issue a maximum of 50,000 shares of US\$1.00 each, of which one share was allotted and issued to our Company as the sole subscriber.

Trauson Holdings HK

On 10 November 2008, Trauson Holdings HK was incorporated in Hong Kong under the name of Trauson Holdings Stock Limited with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each, all of which were allotted and issued to Ms Xu as the sole subscriber.

On 7 February 2010, Ms Xu transferred her 100% ownership of Trauson Holdings HK to Trauson Holdings BVI at a consideration of HK\$10,000.

Trauson Hong Kong

Pursuant to the Reorganisation Agreement, on 10 March 2010, our Company acquired, through Trauson Holdings HK, among other things, the entire issued share capital of Trauson Hong Kong from Ms Xu, in consideration of which our Company allotted and issued 470,834,321 Shares credited as fully paid to Luna Group. The terms of the Reorganisation Agreement are summarised in item h in “5. Future information about the business of our Group — A. Summary of material contracts” of this Appendix.

Orthmed Hong Kong

Pursuant to the Reorganisation Agreement, on 10 March 2010, our Company acquired, through Trauson Holdings HK, among other things, the entire issued share capital of Orthmed Hong Kong from Ms Xu, in consideration of which our Company allotted and issued 91,665,678 Shares credited as fully paid to Luna Group. The terms of the Reorganisation Agreement are summarised in item h in “5. Future information about the business of our Group — A. Summary of material contracts” of this Appendix.

Trauson Jiangsu

On 5 February 2010, the registered capital of Trauson Jiangsu was increased from RMB31 million to US\$22,104,994 following the merger of Trauson Longcheng into Trauson Jiangsu. For details of the merger, please refer to the section headed “History and Development — History” in this prospectus.

5. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**A. Summary of material contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by us and/or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement dated 23 May 2008 entered into between Shanghai Yitong Industrial Co., Ltd. (上海逸通實業有限公司) and Duoliang Investment, pursuant to which Shanghai Yitong Industrial Co., Ltd. agreed to transfer its entire equity interest, representing 60.36% of the registered capital, in Shanghai Rebone Biomaterial Co., Ltd. (上海瑞邦生物材料有限公司) to Duoliang Investment at a consideration of RMB12,071,890;

- (b) a state-owned land use rights grant contract dated 15 December 2008 entered into between Wujin Sub-Bureau of Changzhou Bureau of Land and Resources and Trauson (China) Medical Instrument Company Limited, the predecessor of Trauson Longcheng, pursuant to which the land use rights of a parcel of land with a site area of approximately 118,655.4 square metres were granted to Trauson (China) Medical Instrument Company Limited for industrial use at a consideration of RMB29,901,161;
- (c) an equity transfer agreement dated 12 August 2009 entered into between Trauson Jiangsu and Mr Qian Fu Qing, pursuant to which Trauson Jiangsu agreed to transfer its entire equity interest, representing 40% of the registered capital, in Duoliang Investment to Mr Qian Fu Qing at a consideration of RMB11 million;
- (d) a merger by absorption agreement dated 13 November 2009 entered into between Trauson Jiangsu and Trauson Longcheng, pursuant to which Trauson Longcheng was merged into Trauson Jiangsu. Following the completion of the merger, all the assets and business of Trauson Longcheng were transferred to Trauson Jiangsu and Trauson Jiangsu's registered capital was increased to US\$22,104,994.06;
- (e) a state-owned land use rights acquisition agreement dated 15 December 2009 entered into between Wujin Land Purchase and Reserve Centre and Trauson Medical Instrument (China) Co., Ltd., pursuant to which a portion of the land parcel with a site area of approximately 59,474.8 square metres were purchased by Wujin Land Purchase and Reserve Centre at a consideration of RMB14,987,616;
- (f) an equity transfer agreement dated 15 December 2009 entered into between Trauson Hong Kong and Fully Creation Investment Limited, pursuant to which Trauson Hong Kong agreed to transfer its entire equity interest in Trauson Liyang to Fully Creation Investment Limited for a consideration of HK\$11,058,044.07;
- (g) a share purchase agreement dated 7 February 2010 entered into between Ms Xu and Trauson Holdings BVI, pursuant to which Ms Xu agreed to transfer the entire issued share capital of Trauson Holdings HK to Trauson Holdings BVI at a consideration of HK\$10,000;
- (h) the Reorganisation Agreement dated 24 February 2010 entered into between Ms Xu and our Company, pursuant to which Ms Xu agreed to transfer the entire issued share capital of Trauson Hong Kong and Orthmed Hong Kong to our Company or its nominee, in consideration of which our Company agreed to allot and issue 562,499,999 Shares to Ms Xu or her nominee;
- (i) a deed of undertaking dated 17 March 2010 entered into by Honest Fame and CCBI in relation to certain lock-up undertakings in favour of our Company;
- (j) a deed of non-competition dated 10 June 2010 entered into by Ms Xu, Luna Group and Mr Qian Fu Qing in favour of our Company;
- (k) a deed of indemnity dated 10 June 2010 entered into among Ms Xu, Luna Group, Mr Qian Fu Qing and our Company, under which each of Ms Xu, Luna Group and Mr Qian Fu Qing has given certain indemnities in favour of our Group containing, among others, the indemnities referred to the sub-paragraph headed "Estate duty, taxation and other indemnities" under the paragraph headed "Other information" in this Appendix; and
- (l) the Hong Kong Underwriting Agreement.

B. Our intellectual property rights

As at the Latest Practicable Date, we had registered in the PRC the following trademarks which are material to our Group's business:

Trademark	Registered Owner	Description	Validity Period	Registration No.
	Trauson Jiangsu	Class 10: Orthopaedic surgical instrument	30 April 1991 - 29 April 2011	550610
	Trauson Jiangsu	Class 10: Clips (surgical); Catheters; Surgical apparatus and instruments; E.N.T. department appliance; Forceps; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Spirometers (medical apparatus); Surgical implants (artificial materials)	14 June 2006 - 13 June 2016	4137889
	Trauson Jiangsu	Class 35: Import-export agencies; Sales promotion (for others); Procurement services for others (purchasing goods and services for other businesses)	28 September 2007 - 27 September 2017	4137883
	Trauson Jiangsu	Class 44: Medical clinics; Chiropractics; Hospitals; Health care; Medical assistance; Physical therapy; Dentistry; Pharmacy advice; Plastic surgery; Convalescent homes	14 September 2007 - 13 September 2017	4137872
	Trauson Jiangsu	Class 5: Antisepsis paper; Adhesive plaster; Sticking plasters; Aseptic cotton; Hygienic bandages; Wadding for medical purposes; Surgical tissues; medical dressings; Surgical dressings; Alloys of precious metals for dental purposes	7 May 2007 - 6 May 2017	4137910

Trademark	Registered Owner	Description	Validity Period	Registration No.
TRAUSON	Trauson Jiangsu	Class 10: Clips (surgical); Catheters; Surgical apparatus and instruments; E.N.T. department appliance; Forceps; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Spirometers (medical apparatus); Surgical implants (artificial materials)	14 March 2007 - 13 March 2017	4286531
TRAUSON	Trauson Jiangsu	Class 5: Alloys of precious metals for dental purposes	28 March 2008 - 27 March 2018	4286512
TRAUSON	Trauson Jiangsu	Class 44: Medical clinics; Chiropractics; Hospitals; Health care; Medical assistance; Physical therapy; Dentistry; Pharmacy advice; Plastic surgery; Convalescent homes	21 March 2008 - 20 March 2018	4286529
ORTHMED	Trauson Jiangsu	Class 35: Import-export agencies; Sales promotion (for others); Procurement services for others (purchasing goods and services for other businesses)	21 September 2007 - 20 September 2017	4137877
奧斯迈	Trauson Jiangsu	Class 44: Medical clinics; Chiropractics; Hospitals; Health care; Medical assistance; Physical therapy; Dentistry; Pharmacy advice; Plastic surgery; Convalescent homes	28 September 2007 - 27 September 2017	4137898

Trademark	Registered Owner	Description	Validity Period	Registration No.
ORTHMED	Trauson Jiangsu	Class 5: Medicines for human purposes; Raw material drug; Dietetic foods adapted for medical purposes; Sticking plasters; Hygienic bandages; Wadding for medical purposes; Surgical tissues; Medical dressings; Surgical dressings; Alloys of precious metals for dental purposes	7 May 2007 - 6 May 2017	4137904
奧斯迈	Trauson Jiangsu	Class 5: Medicines for human purposes; Raw material drug; Dietetic foods adapted for medical purposes; Sticking plasters; Hygienic bandages; Wadding for medical purposes ; Surgical tissues; Medical dressings; Surgical dressings; Alloys of precious metals for dental purposes	7 May 2007 - 6 May 2017	4137908
TRAUSON	Trauson Jiangsu	Class 10: Clips (surgical); Catheters; Surgical apparatus and instruments; E.N.T. department appliance; Forceps ; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Spirometers (medical apparatus); Surgical implants (artificial materials)	21 November 2008 - 20 November 2018	5034290

Trademark	Registered Owner	Description	Validity Period	Registration No.
ORTHMED	Orthmed Changzhou	Class 10: Clips (surgical); Catheters; Surgical apparatus and instruments; E.N.T. department appliance; Forceps; Lamps for medical purposes; Medical apparatus and instruments; Cases fitted for medical instruments ; Saws for surgical purposes; Spirometers (medical apparatus)	21 December 2005 - 20 December 2015	3962673
奧斯迈	Orthmed Changzhou	Class 10: Orthopaedic spinal implants; Cases fitted for medical instruments; Surgical apparatus and instruments; E.N.T. department appliance; Instrument cases for use by surgeons and doctors; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Orthopaedic articles; Surgical implants (artificial materials)	21 November 2008 - 20 November 2018	5034468
ORTHMED	Orthmed Changzhou	Class 10: Cases fitted for medical instruments; Surgical apparatus and instruments; E.N.T. department appliance; Instrument cases for use by surgeons and doctors; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Orthopaedic articles; Surgical implants (artificial materials)	21 November 2008 - 20 November 2018	5034465

Trademark	Registered Owner	Description	Validity Period	Registration No.
ORTHMED	Orthmed Changzhou	Class 10: Cases fitted for medical instruments; Surgical apparatus and instruments; E.N.T. department appliance; Instrument cases for use by surgeons and doctors; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Orthopaedic articles; Surgical implants (artificial materials)	21 November 2008 - 20 November 2018	5034466
	Orthmed Changzhou	Class 10: Orthopaedic spinal implants; Cases fitted for medical instruments; Surgical apparatus and instruments; E.N.T. department appliance; Instrument cases for use by surgeons and doctors; Lamps for medical purposes; Medical apparatus and instruments; Saws for surgical purposes; Orthopaedic articles; Surgical implants (artificial materials)	21 November 2008 - 20 November 2018	5034293


As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong:

Trademark	Registered Owner	Description	Validity Period	Registration No.
奧斯迈	Orthmed Hong Kong	<p>Class 5: Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.</p> <p>Class 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials; spinal implants for orthopaedic purposes; cases fitted for medical instruments; surgical apparatus and instruments; ear, nose and throat department appliance; instrument cases for use by surgeons and doctors; lamps for medical purposes; medical apparatus and instruments; saws for surgical purposes; orthopaedic articles; surgical implants (artificial materials).</p> <p>Class 44: Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.</p>	17 December 2009 - 16 December 2019	301501550

Trademark	Registered Owner	Description	Validity Period	Registration No.
ORTHMED	Orthmed Hong Kong	<p>Class 5: Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.</p> <p>Class 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials; cases fitted for medical instruments; surgical apparatus and instruments; ear, nose and throat department appliance; instrument cases for use by surgeons and doctors; lamps for medical purposes; medical apparatus and instruments; saws for surgical purposes; orthopaedic articles; surgical implants (artificial materials); clips (surgical); catheters; forceps (pincers for medical purposes); spirometers (medical apparatus).</p> <p>Class 44: Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.</p>	17 December 2009 - 16 December 2019	301501532

Trademark	Registered Owner	Description	Validity Period	Registration No.
	Orthmed Hong Kong	<p>Class 5: Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.</p> <p>Class 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials; spinal implants for orthopaedic purposes; cases fitted for medical instruments; surgical apparatus and instruments; ear, nose and throat department appliance; instrument cases for use by surgeons and doctors; lamps for medical purposes; medical apparatus and instruments; saws for surgical purposes; orthopaedic articles; surgical implants (artificial materials).</p> <p>Class 44: Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.</p>	17 December 2009 - 16 December 2019	301501523

As at the Latest Practicable Date, we had applied for registration of the following trademarks in Hong Kong:

Trademark	Class (Notes)	Application number	Applicant	Date of application
TRAUSON	5,10,44	301501569	Trauson Hong Kong	17 December 2009
	10	301501541	Trauson Hong Kong	17 December 2009

Notes:

- (i) Class 5 relates to pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (ii) Class 10 relates to surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.
- (iii) Class 44 relates to medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

As at the Latest Practicable Date, we had been granted the following patents in the PRC:

Patent	Registered		Date of Grant	Expiry Date	Certificate No.
	Owner	Model			
無菌內包裝盒(1) Aseptic inner packaging box (1)	Trauson Jiangsu	Design	31 December 2004	30 December 2014	ZL200430121756.9
包裝盒(2) Packaging box (2)	Trauson Jiangsu	Design	31 December 2004	30 December 2014	ZL200430121753.5
內包裝盒 (無菌3) Inner packaging box (Aseptic 3)	Trauson Jiangsu	Design	31 December 2004	30 December 2014	ZL200430121755.4
無菌內包裝盒(4) Aseptic inner packaging box (4)	Trauson Jiangsu	Design	31 December 2004	30 December 2014	ZL200430121754.X
包裝盒 Packaging box	Trauson Jiangsu	Design	31 December 2004	30 December 2014	ZL200430121752.0
醫用骨科植入物包裝盒 Medical orthopedic implant packaging box	Trauson Jiangsu	Utility Model	31 December 2004	30 December 2014	ZL200420121260.6
骨科內植入萬向螺釘組件 Universal screw assembly for orthopaedical inner implantation	Trauson Jiangsu	Utility Model	17 June 2005	16 June 2015	ZL200520072877.8

APPENDIX VI
STATUTORY AND GENERAL INFORMATION

Patent	Registered		Date of Grant	Expiry Date	Certificate No.
	Owner	Model			
頸椎前路接骨板 Anterior cervical bone plate	Trauson Jiangsu	Utility Model	14 July 2006	13 July 2016	ZL200620075166.0
橈骨遠端外固定支架 Remote external fixation frame of radius	Trauson Jiangsu	Utility Model	19 July 2006	18 July 2016	ZL200620075907.5
一種醫用接骨螺釘 A bone screw for medical use	Trauson Jiangsu	Utility Model	16 June 2006	15 June 2016	ZL200620120228.5
醫用鈦網管的切割裝置 Cutting device for medical titanium net duct	Trauson Jiangsu	Utility Model	18 August 2006	17 August 2016	ZL200620131303.8
接骨板用螺紋孔 Screw thread hole for bone plate	Trauson Jiangsu	Utility Model	26 September 2006	25 September 2016	ZL200620077891.1
接骨螺釘 Bone screw	Trauson Jiangsu	Utility Model	26 September 2006	25 September 2016	ZL200620077896.4
接骨板 Bone plate	Trauson Jiangsu	Utility Model	28 October 2006	27 October 2016	ZL200620126886.5
椎間動態穩定器 Intervertebral dynamic stabilizer	Trauson Jiangsu	Utility Model	17 November 2006	16 November 2016	ZL200620126519.5
頸椎開門固定板 Cervical spine open-door fixation plate	Trauson Jiangsu	Utility Model	1 December 2006	30 November 2016	ZL200620125952.7
醫用外固定支架 Medical external fixation frame	Trauson Jiangsu	Utility Model	20 August 2007	19 August 2017	ZL200720042981.1
棘突間植入物 Interspinous process implant	Trauson Jiangsu	Utility Model	21 March 2008	20 March 2018	ZL200820033419.7
多軸鎖定式鋼板接骨系統 Multiple shaft locking type steel plate bone-knitting system	Trauson Jiangsu	Utility Model	21 March 2008	20 March 2018	ZL200820033410.6
鑲嵌式外固定裝置 Inlay type external fixation device	Trauson Jiangsu	Utility Model	09 October 2008	08 October 2018	ZL200820161639.8
通用髓內釘 General intramedullary nail	Trauson Jiangsu	Utility Model	09 October 2008	08 October 2018	ZL200820161638.3
棘突間撐開裝置 Interspinous process distraction device	Trauson Jiangsu	Utility Model	10 November 2008	09 November 2018	ZL200820217750.4

Patent	Registered Owner	Model	Date of Grant	Expiry Date	Certificate No.
可降解加壓接骨螺釘 Degradable compression bone screw	Trauson Jiangsu	Utility Model	14 January 2009	13 January 2019	ZL200920037945.5
可降解接骨板 Degradable bone plate	Trauson Jiangsu	Utility Model	14 January 2009	13 January 2019	ZL200920037943.6
可降解拉力接骨螺釘 Degradable lag bone screw	Trauson Jiangsu	Utility Model	14 January 2009	13 January 2019	ZL200920037944.0
髓內釘鎖孔磁定位裝置 Intramedullary nail keyhole magnetic tracking device	Orthmed Changzhou	Utility Model	15 December 2006	14 December 2016	ZL200620175200.1
脊柱外科用內固定裝置 Internal fixation device for vertebral column surgery	Orthmed Changzhou	Utility Model	22 May 2007	21 May 2017	ZL200720039114.2
接骨板 Bone plate	Orthmed Changzhou	Utility Model	22 May 2005	21 May 2015	ZL200720039115.7
一種經椎弓根固定裝置 A fixation device passing through pedicle of vertebral arch	Orthmed Changzhou	Utility Model	27 June 2008	26 June 2018	ZL200820039773.0
腰椎後路微創入路撐開系統 Lumbar vertebra posterior less invasive approach distraction system	Orthmed Changzhou	Utility Model	27 June 2008	26 June 2018	ZL200820039781.5
腰椎前路鎖定椎間融合器 Intervertebral fusion device for locking anterior lumbar interbody	Orthmed Changzhou	Utility Model	27 June 2008	26 June 2018	ZL200820039782.X
一種腰椎棘突撐開裝置 A lumbar interspinous process distraction device	Orthmed Changzhou	Utility Model	29 July 2008	28 July 2018	ZL200820042279.X
頸椎前路鋼板固定系統 Anterior cervical steel plate fixation system	Orthmed Changzhou	Utility Model	10 November 2008	9 November 2018	ZL200820217751.9

As at the Latest Practicable Date, we had applied for the following patents in the PRC which are material to our Group's business:

Patent	Applicant	Application No.	Application Date
多軸鎖定式接骨系統 Multiple shaft locking type bone-knitting system	Trauson Jiangsu	200810024417.6	21 March 2008
椎弓根釘盒 Pedicle screw box	Trauson Jiangsu	200920048149.1	31 August 2009
一種經椎弓根固定裝置 A fixation device passing through pedicle of vertebral arch	Orthmed Changzhou	200810124360.7	27 June 2008
一種腰椎棘突撐開裝置 A lumbar interspinous process device	Orthmed Changzhou	200810124359.4	27 June 2008

As at the Latest Practicable Date, we had registered the following domain names:

Domain name	Registrant	Date of Registration	Expiry Date
www.trauson.com	Trauson Jiangsu	10 January 2006	10 January 2013
www.orthmed.com	Orthmed Changzhou	26 July 2004	26 July 2016

C. Our product registration certificates

As at the Latest Practicable Date, we had the following product registration certificates granted by the SFDA:

No.	Product Name	Registrant	No. of Registration Certificate	Validity Period
1	脛骨帶鎖髓內釘 Tibial interlocking intramedullary nail	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460135	26 February 2009 - 25 February 2013
2	股骨帶鎖髓內釘 Femoral interlocking intramedullary nail	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460197	18 March 2009 - 17 March 2013
3	逆行帶鎖髓內釘 Retrograde Interlocking intramedullary nail	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460196	18 March 2009 - 17 March 2013
4	伽瑪(γ)型帶鎖髓內釘 Gamma (γ) Interlocking intramedullary nail	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460835	3 November 2009 - 2 November 2013
5	股骨端接骨板 (DHS、DCS) Distal femoral bone plate (DHS、DCS)	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460876	9 July 2008 - 8 July 2012
6	骨圓針 Thick steel needle	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460847	8 July 2008 - 7 July 2012
7	金屬直型接骨板 Metal straight bone plate	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3461054	22 August 2008 - 21 August 2012

No.	Product Name	Registrant	No. of Registration	
			Certificate	Validity Period
8	金屬接骨板 (商品名: 普通直形接骨板) Metal bone plate (Commodity name: Ordinary straight bone plate)	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460657	26 May 2008 - 25 May 2012
9	金屬接骨板 (商品名: 鎖定接骨板) Metal bone plate (Commodity name: Locking bone plate)	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460658	26 May 2008 - 25 May 2012
10	金屬接骨板 (商品名: 骨端接骨板) Metal bone plate (Commodity name: Bone end bone plate)	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460659	26 May 2008 - 25 May 2012
11	金屬接骨板 (商品名: 解剖接骨板) Metal bone plate (Commodity name: Anatomical bone plate)	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460660	26 May 2008 - 25 May 2012
12	金屬接骨板 (商品名: 鎖定直形接骨板) Metal bone plate (Commodity name: Locking straight bone plate)	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460809	1 July 2008 - 30 June 2012
13	掌、指骨接骨板 Metacarpal and phalangeal bone plate	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2006 No. 3460431 (Geng)	3 July 2006 - 17 April 2010
14	金屬接骨螺釘 Metal Bone Screw	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3461181	7 October 2008 - 6 October 2012
15	中空螺釘 Cannulated screw	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460195	18 March 2009 - 17 March 2013
16	單獨綁紮鋼繩 Steel lashing wire	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460813	1 July 2008 - 30 June 2012
17	脊柱通用內固定器 General spinal internal fixator	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460669	21 May 2008 - 20 May 2012
18	脊柱通用內固定器 General spinal internal fixator	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460670	21 May 2008 - 20 May 2012
19	脊柱通用內固定器 General spinal internal fixator	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460671	21 May 2008 - 20 May 2012
20	脊柱通用內固定器 General spinal internal fixator	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460672	21 May 2008 - 20 May 2012
21	脊柱通用內固定器 General spinal internal fixator	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460673	21 May 2008 - 20 May 2012
22	脊柱通用內固定器 General spinal internal fixator	Trauson Jiangsu	Guo Shi Yao Jian Xie (Zhun) Zi 2008 No. 3460674	21 May 2008 - 20 May 2012

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No.	Product Name	Registrant	No. of Registration	
			Certificate	Validity Period
23	鑲嵌式外固定支架 Inlay type external fixation frame	Trauson Jiangsu	Su Shi Yao Jian Xie (Zhun) Zi 2009 No. 2100194	1 April 2009 - 31 March 2013
24	GSS型脊柱內固定器專用工具包 Special tool case for GSS spinal internal fixator	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2007 No. 1100017	13 April 2007 - 12 April 2011
25	髌臼復位專用工具包 Special tool case for acetabulum diaplasis	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2007 No. 1100018	13 April 2007 - 12 April 2011
26	上肢接骨板專用工具包 Special tool case for upper extremity bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100150	17 November 2009 - 16 November 2013
27	下肢接骨板專用工具包 Special tool case for lower extremity bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100149	17 November 2009 - 16 November 2013
28	股骨帶鎖髓內釘專用工具包 Special tool case for femoral interlocking intramedullary nail	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100022	21 March 2008 - 20 March 2012
29	脛骨帶鎖髓內釘專用工具包 Special tool case for tibial interlocking intramedullary nail	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100021	21 March 2008 - 20 March 2012
30	伽瑪(γ)型帶鎖髓內釘專用工具包 Special tool case for gamma(γ) interlocking intramedullary nail	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100020	21 March 2008 - 20 March 2012
31	GSS-II型脊柱通用內固定器專用工具包 Special tool case for GSS-II general spinal internal fixator	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100099	21 August 2008 - 20 August 2012
32	GSS-III型脊柱通用內固定器專用工具包 Special tool case for GSS-III general spinal internal fixator	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100017	21 March 2008 - 20 March 2012
33	繩索捆綁專用工具包 Special tool case for lashing	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100096	21 August 2008 - 20 August 2012
34	股骨逆行髓內釘專用工具包 (商品名: 髌上釘專用工具包) Special tool case for retrograde femoral intramedullary nail (Commodity name: special tool case for supracondylar nail)	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100002	25 February 2009 - 24 February 2013
35	股、脛骨端接骨板(DHS/DCS) 專用工具包 Special tool case for distal femoral and tibial bone plate (DHS/DCS)	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100001	25 February 2009 - 24 February 2013

No.	Product Name	Registrant	No. of Registration Certificate	Validity Period
36	肱骨逆行髓內釘專用工具包 (商品名: 肱骨釘專用工具包) Special tool case for retrograde humeral intramedullary nail (Commodity name: special tool case for humeral nail)	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100003	25 February 2009 - 24 February 2013
37	7.3中空螺釘專用工具包 Special tool case for 7.3 cannulated screw	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100097	21 August 2008 - 20 August 2012
38	4.5中空螺釘專用工具包 Special tool case for 4.5 cannulated screw	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100098	21 August 2008 - 20 August 2012
39	GSS-IV型脊柱通用內固定器專用工具包 Special tool case for GSS-IV general spinal internal fixator	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100018	21 March 2008 - 20 March 2012
40	掌、指骨接骨板專用工具包 Special tool case for metacarpal and phalangeal bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100052	17 June 2009 - 16 June 2013
41	鎖定接骨板專用工具包 Special tool case for locking bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2007 No. 1100019	13 April 2007 - 12 April 2011
42	GSS-V型脊柱通用內固定器專用工具包 Special tool case for GSS-V general spinal internal fixator	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2007 No. 1100045	20 July 2007 - 19 July 2011
43	GSS-VII型脊柱矯形系統專用工具包 Special tool case for GSS-VII spinal orthopedic system	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100019	21 March 2008 - 20 March 2012
44	股骨近端鎖定接骨板專用工具包 Special tool case for proximal femoral locking bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100023	21 March 2008 - 20 March 2012
45	上肢接骨板急診專用工具包 (商品名: 小骨折塊急診專用工具包) Emergency special tool case for upper extremity bone plate (Commodity name: Emergency special tool case for small bone fracture)	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100024	21 March 2008 - 20 March 2012
46	下肢接骨板急診專用工具包 (商品名: 大骨折塊急診專用工具包) Emergency special tool case for lower extremity bone plate (Commodity name: Emergency special tool case for large bone fracture)	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100025	21 March 2008 - 20 March 2012

No.	Product Name	Registrant	No. of Registration Certificate	Validity Period
47	外固定支架專用工具包 Special tool case for external fixation frame	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100026	21 March 2008 - 20 March 2012
48	微創骨端接骨板專用工具包 Special tool case for less invasive bone-end bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100125	9 October 2009 - 8 October 2013
49	鑲嵌式外固定支架專用工具包 Special tool case for inlay type external fixation frame	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100055	17 June 2009 - 16 June 2013
50	通用逆行髓內釘專用工具包 Special tool case for general retrograde intramedullary nail	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100068	10 July 2009 - 9 July 2013
51	GSS脊柱通用工具包 GSS general spinal tool case	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100099	18 August 2009 - 17 August 2013
52	頸後路內固定系統專用工具包 Special tool case for posterior cervical internal fixation system	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100100	18 August 2009 - 17 August 2013
53	螺釘取出器械專用工具包 Special tool case for screw extraction equipment	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100101	18 August 2009 - 17 August 2013
54	II型鎖定接骨板專用工具包 Special tool case for Type II locking bone plate	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100102	18 August 2009 - 17 August 2013
55	椎間融合器專用工具包 Special tool case for intervertebral fusion device	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100107	1 September 2009 - 31 August 2013
56	頸椎鋼板系統專用工具包 Special tool case for cervical steel plate system	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100108	1 September 2009 - 31 August 2013
57	椎體成形手術專用工具包 Special tool case for vertebroplasty	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100109	1 September 2009 - 31 August 2013
58	導引針 Guide pin	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100151	17 November 2009 - 16 November 2013
59	γ — III型股骨近端髓內釘專用工具包 Special tool case for γ-III proximal femoral intramedullary nail	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100134	3 November 2009 - 2 November 2013
60	微創下肢骨折復位專用工具包 Special tool case for less invasive lower extremity fracture reduction	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100124	9 October 2009 - 8 October 2013

No.	Product Name	Registrant	No. of Registration	
			Certificate	Validity Period
61	擴髓軟鑽專用工具包 Special tool case for reamers	Trauson Jiangsu	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100123	9 October 2009 - 8 October 2013
62	帶鎖髓內釘 Interlocking intramedullary nail	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2006 No. 3460618	26 June 2006 - 25 June 2010
63	金屬鵝頭接骨板 Metal DHS/DCS plate	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2006 No. 3460621	26 June 2006 - 25 June 2010
64	金屬螺釘 Metal screw	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2007 No. 3460756	22 May 2007 - 21 May 2011
65	微型接骨板專用工具包 Special tool case for mini bone plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100027	21 March 2008 - 20 March 2012
66	上肢接骨板專用工具包 Special tool case for upper extremity bone plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100088	11 August 2008 - 10 August 2012
67	下肢接骨板專用工具包 Special tool case for lower extremity bone plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100089	11 August 2008 - 10 August 2012
68	上肢鎖定接骨板專用工具包 Special tool case for upper extremity locking bone plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100144	31 December 2008 - 30 December 2012
69	下肢骨折復位專用工具包 Special tool case for lower extremity fracture reduction	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100122	9 October 2009 - 8 October 2013
70	HB7.3中空螺釘專用工具包 Special tool case for HB7.3 cannulated screw	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100145	31 December 2008 - 30 December 2012
71	HB4.5中空螺釘專用工具包 Special tool case for HB4.5 cannulated screw	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100146	31 December 2008 - 30 December 2012
72	伽瑪(γ)型髓內釘專用工具包 Special tool case for gamma (γ) intramedullary nail	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100147	31 December 2008 - 30 December 2012
73	股骨逆行髓內釘專用工具包 Special tool case for retrograde femoral intramedullary nail	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100148	31 December 2008 - 30 December 2012
74	股骨髓內釘專用工具包 Special tool case for femoral intramedullary nail	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100149	31 December 2008 - 30 December 2012

No.	Product Name	Registrant	No. of Registration	
			Certificate	Validity Period
75	肱骨逆行髓內釘專用工具包 Special tool case for retrograde humeral intramedullary nail	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100150	31 December 2008 - 30 December 2012
76	髌臼復位專用工具包 Special tool case for acetabulum diaplasis	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100151	31 December 2008 - 30 December 2012
77	脛骨髓內釘專用工具包 Special tool case for tibial intramedullary nail	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100152	31 December 2008 - 30 December 2012
78	DHS/DCS鵝頭接骨板專用工具包 Special tool case for DHS/DCS plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2008 No. 1100153	31 December 2008 - 30 December 2012
79	下肢鎖定接骨板專用工具包 Special tool case for lower extremity locking bone plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100004	25 February 2009 - 24 February 2013
80	外固定支架-IX型專用工具包 Special tool case for IX-type external fixation frame	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100069	10 July 2009 - 9 July 2013
81	螺釘取出器械專用工具包 Special tool case for screw extraction equipment	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100105	18 August 2009 - 17 August 2013
82	微創骨端接骨板專用工具包 Special tool case for less invasive bone end plate	Orthmed Changzhou	Su Chang Shi Yao Jian Xie (Zhun) Zi 2009 No. 1100135	3 November 2009 - 2 November 2013
83	外固定支架 External fixation frame	Orthmed Changzhou	Su Shi Yao Jian Xie (Zhun) Zi 2009 No. 2100251	30 April 2009 - 29 April 2013
84	金屬接骨板(商品名:保護性、支持接骨板) Metal bone plate (Commodity name: Protective and supportive bone plate)	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460468	7 July 2009 - 6 July 2013
85	金屬接骨板(商品名:鎖定接骨板) Metal bone plate (Commodity name: Locking bone plate)	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460469	7 July 2009 - 6 July 2013
86	金屬接骨板(商品名:普通加壓接骨板) Metal bone plate (Commodity name: Ordinary compression bone plate)	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460470	7 July 2009 - 6 July 2013
87	金屬接骨板(商品名:鎖定加壓接骨板) Metal bone plate (Commodity name: Locking compression bone plate)	Orthmed Changzhou	Guo Shi Yao Jian Xie (Zhun) Zi 2009 No. 3460471	7 July 2009 - 6 July 2013

6. DISCLOSURE OF INTERESTS**A. Particulars of Directors' service contracts**

We have entered into letters of appointment with each of our Directors, pursuant to which each Director is appointed for a term of three years with effect from 10 June 2010, subject to re-election in accordance with our Articles of Association and the Listing Rules.

B. Directors' remuneration

The aggregate remuneration paid and benefits in kind (including our contribution to the pension scheme on behalf of our Directors) or any bonuses to our Directors during each of the years ended 31 December 2007, 2008 and 2009 was RMB0.7 million, RMB1.8 million and RMB2.7 million, respectively.

It is estimated that remuneration (excluding discretionary bonus) and benefits in kind equivalent to approximately RMB6.3 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending 31 December 2010 under arrangements in force at the date of this prospectus.

C. Interests and short positions of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, the interests or short positions of the Directors and the 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 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 recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company</u>
Ms Xu Yan Hua (<i>Note 1</i>)	Corporate interest	481,231,375	64.2%
Mr Qian Fu Qing (<i>Note 2</i>)	Interest of spouse	481,231,375	64.2%

Notes:

- The entire issued share capital of Luna Group Holdings Limited is solely and beneficially owned by Ms Xu Yan Hua. Ms Xu is deemed under the SFO to be interested in 481,231,375 Shares held by Luna Group Holdings Limited.
- Mr Qian Fu Qing, the spouse of Ms Xu, is also deemed to be interested in the 481,231,375 Shares in which Ms Xu is deemed to be interested.

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

Immediately following completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, so far as our Directors are aware, the following persons (not being Directors or chief executive of our Company) will have an interest 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	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Luna Group Holdings Limited (<i>Note 1</i>) . . .	Beneficial owner	481,231,375	64.2%
China Construction Bank Corporation (<i>Note 2</i>)	Interest of a controlled corporation	55,940,625	7.5%
CCB International Asset Management Limited (<i>Note 2</i>)	Interest of a controlled corporation	55,940,625	7.5%
Honest Fame Investment Limited (<i>Note 2</i>) .	Beneficial owner	55,940,625	7.5%

Notes:

1. The entire issued share capital of Luna Group Holdings Limited is solely and beneficially owned by Ms Xu Yan Hua. Ms Xu is deemed under the SFO to be interested in 481,231,375 Shares held by Luna Group Holdings Limited.
2. The entire issued share capital of Honest Fame Investment Limited is solely and beneficially owned by CCB International Asset Management Limited, which is in turn wholly owned by China Construction Bank Corporation. Each of CCB International Asset Management Limited and China Construction Bank Corporation is deemed under the SFO to be interested in 55,940,625 Shares held by Honest Fame Investment Limited.

E. Connected transactions and related party transactions

The connected transactions and related party transactions entered into by our Group within the two years immediately preceding the date of this prospectus are set out in the sections entitled “Connected Transactions” and note 34 (Related party transactions) to the accountants’ report set out in Appendix 1 to this prospectus, respectively.

F. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or 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 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 recorded in the register referred to therein or which will be required to be notified to our Company and the 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 (not being a Director or chief executive of our Company) 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 has or is proposed to have a service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (d) none of our Directors nor any of the parties listed in the paragraph headed “7. Other Information — D. Qualifications of experts” of 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;
- (e) none of the parties listed in the paragraph headed “7. Other information — D. Qualifications of experts” of 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; and
- (f) none of our Directors, 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 five largest customers of our Group.

Save for the lease by Ms Xu to the Group as disclosed in note 34 to the accountants’ report set out in Appendix I to this prospectus, none of our Directors nor any of the parties listed in the paragraph headed “7. Other information — D. Qualifications of experts” of this Appendix is interested, directly or indirectly, in the promotion of, or 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.

7. OTHER INFORMATION

A. Estate duty, taxation and other indemnities

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Ms Xu, Luna Group and Mr Qian Fu Qing have entered into a deed of indemnity referred to in item k in the paragraph headed “5. Further information about the business of our Group — A. Summary of material contracts” of this Appendix in favour of our Group. Pursuant to the deed of indemnity, Ms Xu, Luna Group and Mr Qian Fu Qing jointly and severally agreed to indemnify our Group in connection with, among other things:

- Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the date on which the Global Offering becomes unconditional (the “Effective Date”);
- any tax liabilities which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or deemed to be so earned, accrued or received on or before the Effective Date;
- any tax liabilities which might be payable by any member of our Group under or by reason of any transfer of property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the Effective Date;
- all damages, losses and liabilities arising from or in connection with any property claim to the extent that the events leading to such damages, losses and liabilities occurred on or prior to the Effective Date;
- all damages, losses and liabilities which might be suffered or incurred by any member of our Group resulting from or in connection with any infringement of third-party intellectual property rights by any member of our Group, to the extent that the events leading to such damages, losses and liabilities occurred on or prior to the Effective Date;
- all damages, losses and liabilities which might be suffered or incurred by any member of our Group resulting from or in connection with any litigation, legal actions or other proceedings in which any member of our Group is named a party or is otherwise involved in as at the Effective Date, including but not limited to those litigation cases and the pending retrial application to the Supreme People’s Court disclosed in the section headed “Business — Legal compliance and proceedings — Legal proceedings” in the prospectus; and
- all damages, losses and liabilities which may be suffered or incurred by any member of our Group in the event that any product of our Group manufactured and sold before the Effective Date has been determined by a competent authority to contravene the relevant requirements under the corresponding product registration certificates.

B. Promoters

Our Company has no promoters.

C. Preliminary expenses

Our estimated preliminary expenses are approximately US\$25,800 and have been paid by us.

D. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
UBS AG, Hong Kong Branch	Registered institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
King and Wood	PRC legal adviser
Jones Lang LaSalle Sallmanns Limited	Property valuer
Maples and Calder	Cayman Islands legal adviser

E. Consents of experts

Each of UBS, Deloitte Touche Tohmatsu, King and Wood, Jones Lang LaSalle Sallmanns Limited and Maples and Calder 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 valuation certificates and/or opinions and/or the references to its name included herein in the form and context in which they are respectively included.

F. Taxation on holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Company's Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

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 a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

(b) Cayman Islands

Under the present laws of the Cayman Islands, no stamp duty is payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisers

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of our Company, the Sponsor, the Underwriters, any of their respective directors, 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 for, purchase, holding or disposal of, or dealing in, the Shares.

G. 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 Companies Ordinance so far as applicable.

H. Particulars of the Selling Shareholder:

Name: Luna Group

Address: Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands
Shareholder: Ms Xu

Description of business: Investment Holding

Number of Sale Shares: 25,328,000 (assuming the Over-allotment Option is not exercised) or 29,126,000 (assuming the Over-allotment Option is exercised in full)

I. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) within the two years immediately preceding the date of this 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 any of our subsidiaries;
- (iv) within the two years immediately preceding the date of this prospectus, no commission has been paid or is payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (v) none of the equity or debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal in such equity or debt securities being or proposed to be sought;
- (vi) we have no outstanding convertible debt securities or debentures; and
- (vii) no founder or management or deferred shares of any member of our Group have been issued or agreed to be issued.

- (b) This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language version of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

J. 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).

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 were copies of **WHITE, YELLOW** and **GREEN** Application Forms, the list containing the particulars of the Selling Shareholder as set out in the paragraph headed “7. Other information — H. Particulars of the Selling Shareholder” in Appendix VI to this prospectus, the written consents referred to in the section headed “7. Other information — E. Consents of experts” in Appendix VI to this prospectus, copies of the material contracts referred to in the section headed “5. Further information about the business of our Group — A. Summary of material contracts” in Appendix VI to this prospectus, and the statements of adjustments made by Deloitte Touche Tohmatsu in arriving at the figures set out in the accountants’ reports in Appendix I to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Latham & Watkins at 41st Floor, One Exchange Square, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the accountants’ reports prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendix I to this prospectus and the related statement of adjustments;
- (c) the letter relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the letters relating to the profit forecast of our Group, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter dated 15 June 2010, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix IV to this prospectus;
- (f) the PRC legal opinion and the supplementary PRC legal opinion each dated 15 June 2010 issued by King and Wood, our PRC legal adviser;
- (g) the letter of advice prepared by Maples and Calder summarising certain aspects of the Cayman Companies Law referred to in Appendix V to this prospectus;
- (h) the written consents referred to under the paragraph headed “7. Other information — E. Consents of experts” in Appendix VI to this prospectus;
- (i) copies of material contracts referred to in the section headed “5. Further information about the business of our Group — A. Summary of material contracts” in Appendix VI to this prospectus;
- (j) Cayman Companies Law; and
- (k) the particulars of the Selling Shareholder referred to in the paragraph headed “7. Other information — H. Particulars of the Selling Shareholder” in Appendix VI to this prospectus.



TRAUSON

Trauson Holdings Company Limited
創生控股有限公司