Trauson Holdings Company Limited
創生控股有限公司

(incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：325

ANNUAL REPORT
2010年報

Contents

CORPORATE PROFILE

Trauson Holdings Company Limited ("Trauson Holdings" or the "Company") and its subsidiaries (together as the "Group") is a leading manufacturer of orthopaedic products in China. The Group is principally engaged in the design, manufacture and sale of various trauma and spine orthopaedic implants and related surgical tools. The Group was founded by the chairman and chief executive officer, Mr Qian Fu Qing, in December 2002 and is one of the forerunners in China's orthopaedic industry. According to market research conducted by China Orthopaedics (中國骨科), Trauson Holdings was the largest domestic producer of trauma products and one of the top three domestic producers of spine products in China by market share in 2009.

As at 31 December 2010, the Group had over 100 products marketed under its own brands, "Trauson" and "Orthmed". The Group's extensive distribution network covered over 30 provinces and autonomous regions across China, with over 3,000 hospitals recognizing Trauson Holdings as their supplier of orthopaedic products.

Embracing the philosophy of "professionalism, focus and concentration", the Group has experienced rapid growth since its inception. On 29 June 2010, Trauson Holdings reached an important milestone in its development when it was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") (stock code: 325.HK), becoming one of the first China orthopaedic device companies to access the international capital market.

The Group has two principal and wholly-owned operating subsidiaries, Trauson (Jiangsu) Medical Instrument Company Limited ("Trauson Jiangsu", which has been renamed as Trauson Medical Instrument (China) Company Limited with effect from 23 March 2011) and Changzhou Orthmed Medical Instrument Company Limited ("Changzhou Orthmed"). As at 31 December 2010, the Group had three production facilities with an aggregate floor area of 107,100 square metres, and total assets of approximately RMB1,023 million.

MEMBERS OF THE BOARD

Executive Directors

Mr Qian Fu Qing
Ms Ren Feng Mei
Mr Cai Yong

Non-executive Directors

Ms Xu Yan Hua
Mr Ng Ming Chee, James
(Appointed on 24 August 2010)

Independent Non-executive Directors

Mr Chan Yuk Tong
Dr Lu Bing Heng
Mr Zhao Zi Lin

BOARD COMMITTEE

Audit committee

Mr Chan Yuk Tong *(Chairman)*
Mr Zhao Zi Lin
Ms Xu Yan Hua

Remuneration committee

Mr Zhao Zi Lin *(Chairman)*
Dr Lu Bing Heng
Mr Qian Fu Qing

Nomination committee

Dr Lu Bing Heng *(Chairman)*
Mr Chan Yuk Tong
Mr Qian Fu Qing

COMPANY SECRETARY

Ms Ma Sau Kuen, Gloria
(Appointed on 19 November 2010)

AUTHORISED REPRESENTATIVES

Mr Qian Fu Qing
Ms Ma Sau Kuen, Gloria
(Appointed on 19 November 2010)

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong law:
Jackson Woo & Associates in association with
Ashurst Hong Kong

as to PRC law:
King and Wood

as to Cayman Islands law:
Maples and Calder

COMPLIANCE ADVISER

Mizuho Securities Asia Limited

HEADQUARTERS

9 Longmen Road
Wujin High-tech Industrial Development Zone
Changzhou City
Jiangsu Province
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REGISTERED OFFICE

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INVESTOR RELATIONS

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Bank of Communications Limited
China Construction Bank Corporation
The Hongkong and Shanghai Banking Corporation Limited

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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Hopewell Centre
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Wanchai
Hong Kong

COMPANY'S WEBSITE

http://www.trauson.com

STOCK CODE

325

	For the year ended 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
Revenue	**290,742**	211,485	173,692	131,582
Gross profit	**211,364**	149,223	114,853	77,581
Profit before tax	**129,584**	94,061	74,838	54,120
Profit attributable to owners of the Company	**106,259**	82,179	64,832	55,715

	As at 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Total assets	**1,022,781**	339,468	255,954	179,813
Total liabilities	**(69,402)**	(103,375)	(104,998)	(93,689)
Net Assets	**953,379**	236,093	150,956	86,124

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Trauson Holdings Company Limited ("Trauson Holdings" or the "Company", together with its subsidiaries the "Group"), I am pleased to present the first annual report of the Group since its listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKSE") on 29 June 2010.

With investors' support, Trauson Holdings' initial public offering on the HKSE was a huge success, demonstrating the market's recognition of the Group's promising prospects. Being a publicly listed company in Hong Kong enables the Group to access the international capital market and provides favourable conditions for its future development. Indeed, 2010 is a key milestone in the history of Trauson Holdings.

For the year ended 31 December 2010, the Group reported sales revenue of approximately RMB290.7 million, representing an increase of 37.5% year over year. Profit attributable to owners of the Company amounted to RMB106.3 million, translating to basic earnings per share of RMB16 cents.

The concerted efforts from research and development, sales and marketing, as well as production and new business development have led to Trauson Holdings' favourable 2010 results. The entire team, from senior management to junior staff, strives incessantly to expand the Group's business. During the reporting period, the Group's main achievements were:

1. **Steady sales growth with market expansion:** The Group continues to enhance its distribution channel management and expansion with a commitment on servicing its distributors and hospitals better. Towards the end of 2010, the Group implemented its new strategy of dividing the China Market into six geographical regions, with a dedicated sales team for each region, in order to enhance customer service, better exploit new market opportunities, and strengthen the management of distributors. During 2010, the Group added 67 distributors and expanded services to 77 new hospitals. At the end of the reporting period, the Group's distribution and sales network in China consisted of 450 distributors covering over 3,000 hospitals.

2. **New products released as planned:** To take the Group's competitiveness to the next level, Trauson Holdings spent approximately RMB10 million on research and development during 2010, focusing on new materials, new products, and clinical studies. In the management's view, research and development lies at the core of the Group's capabilities and is critical to the Group's long-term success. In recognition of the Group's strength in research and development, the Science and Technology Department of Jiangsu province awarded Trauson Jiangsu the title of "Science and Technology Private Enterprise". Concurrently, Trauson Jiangsu garnered the approval from the provincial Science and Technology Department to establish the Jiangsu Research Center for Minimally Invasive Orthopaedic Devices.

For the year ended 31 December 2010, 4 new products were introduced to the market, including 3 trauma products and 1 spine product. Currently, the Group has 9 products under clinical trials with 3 more anticipated to start clinical trials in 2011. At the end of 2010, Trauson Holdings had 51 registered patents and 27 patents pending for approval. Indeed, the Group places a heavy emphasis on research and development, as it is one of the key factors to a competitive and robust product line.

3. **New manufacturing plant commenced production:** The Group's new manufacturing facility commenced production in September 2010 after the relocation of part of the production lines for plates, screws, and intramedullary nail systems from the old facility of Trauson Jiangsu. The relocation is expected to be completed by the end of the first half of 2011.

During the year, the Group was awarded and recognized in many regards as shown below:

Month of Award	**Award/Recognition**
January 2010	National Trustworthy Enterprise in Quality
January 2010	National AAA Grade Trustworthy Company
February 2010	21315 National Trustworthy Enterprise
February 2010	Changzhou 2009 Star Enterprise
March 2010	Changzhou City, Wujin District Major Tax Payer
March 2010	Changzhou City, Wujin District High-Growth Small-and-Medium Enterprise
March 2010	Changzhou City, Wujin District Advanced Industrial Enterprise
November 2010	Top Ten Well-Known Brands in China
December 2010	Deloitte Technology Fast 500 Asia Pacific for 2010

As the Group looks ahead to 2011 and beyond, we believe that the numerous favourable macro factors and fundamental trends should continue to drive the growth of this industry. We will seize upon these opportunities and strive to remain at the leading edge of China's orthopaedic industry.

Lastly, I want to express my sincere gratitude to our directors and employees for their contributions during the past year and to all our shareholders and partners for their support. We are committed to providing high quality orthopaedic products to meet the growing demands in China and abroad as well as creating maximum shareholders value.

Qian Fu Qing
Chairman and Chief Executive Officer

Hong Kong, 25 March 2011

1. INDUSTRY REVIEW

The Company is a direct beneficiary of the fundamentally sound orthopaedic-device industry in China. Driven by three key macro factors—1) China's large population, 2) the ageing demographics, and 3) the trend toward urbanization—the industry is expected to continue to grow at a sustainable, healthy rate.

China's 1.3 billion people represent a potentially huge market for the orthopaedic-device industry. In particular, China's ageing demographics has led to a significant increase in the morbidity of orthopaedic diseases. According to the International Osteoporosis Foundation, among people aged 50 and above in China, approximately 70 million people suffer from osteoporosis in 2010. Therefore, patients' demand for orthopaedic surgeries is increasing.

The trend towards urbanization in China is also contributing to the increasing need for orthopaedic devices. With higher income and a growing middle class, people are demanding better quality of life. Moreover, with the expansion of medical insurance coverage in the urban areas, orthopaedic treatments have become more affordable. These multiple factors are helping to fuel the development of the orthopaedic device market in China.

Not surprisingly, in 2010 China's orthopaedic-implant market by revenue grew in excess of 20% to RMB7 billion according to Frost & Sullivan. This growth rate is approximately four times that of the global market.

Across China, in many large and medium-sized cities, the local governments have added orthopaedic orthotic surgeries to the healthcare coverage plan. Orthopaedic orthotic surgeries encompass trauma cases, artificial joint replacement, and spine surgeries. These developments have undoubtedly bolstered the industry's growth as well.

Another important development is the drafting of the amendment to "The Regulations on the Supervision of Medical Devices." In early September 2010, the Legislative Affairs Office of the State Council issued a notice seeking comments on amending the aforementioned regulations. The Company views this latest regulatory development in a positive light, as its publication and implementation should eventually lead to a more structured industry ecosystem and benefit industry leaders such as Trauson Holdings.

With heightened healthcare reforms, multinational companies are paying more attention to China's medical device industry. Concurrently, China's medical device manufacturers are narrowing the gap with the multinationals by continuously improving their craftsmanship, and research and development capabilities. Indeed, with quality products at competitive prices, "Made in China" medical devices are increasingly sought after in markets around the world.

2. REVIEW OF EACH BUSINESS SEGMENT

a) Sales Analysis

Trauma products, spine products and surgical instruments are the major products sold by the Company. During the year, revenue from trauma and OEM products grew markedly by 35.60% and 83.98%, respectively. Additionally, sales of spine and other products also saw steady growth of 9.27% and 13.20%, respectively. The overall growth in revenue for 2010 was 37.48%.

The sales for the year ended 31 December 2010 is summarized as follows:

Type	Sales amount (RMB'000)	Change
Trauma products	183,626	35.60%
Spine products	34,274	9.27%
OEM products	57,804	83.98%
Others	15,038	13.20%
Total	290,742	37.48%

b) Production and Operation

The Company currently has three locations for its production facilities which are owned and operated by two wholly-owned operating enterprises, namely Trauson Jiangsu and Changzhou Orthmed. The total production of the Group's major product types and their respective utilization rates for the year ended 31 December 2010 are as follows:

Product type	Actual production volume	Utilization rate
Plates	331,436 units	94%
Screws	2,149,776 units	83%
Intramedullary nails	42,129 units	78%
Cannulated screws	66,763 units	115%
Pedicle screws	110,255 units	86%
Surgical instruments	3,198 units	76%

The Group is committed to enhancing the production capacity to meet the market's strong demand. During the year, the construction of phase one of our new production facility which houses our headquarters, was completed. The Group has commenced the installation of equipment into this new facility. Upon the completion of equipment installation at the end of 2011, the Group's maximum annual production capacities are expected to reach the following levels:

Product	Maximum annual capacity
Plates	425,000 units
Screws	2,920,000 units
Intramedullary nails	52,000 units
Cannulated screws	85,000 units
Pedicle screws	155,000 units
Surgical instruments	4,400 sets

c) Research and Development:

For the year ended 31 December 2010, 4 new products were introduced to the market, including 1 spine product and 3 trauma products. Currently, the Group has 9 products under clinical trials and has completed the clinical trials for another spine product for which the Group is applying for registration.

The Group owned 51 patents and had 27 patents pending approval at the end of 2010.

In order to further expand the product lines, to enhance the competitiveness of our products and to maintain the Group's edge over its industry peers, the Group spent an aggregate of approximately RMB10 million in research and development during the period. Our research and development team focuses mainly on developing new materials and products, and supporting clinical trials.

In 2010, the Science and Technology Department of Jiangsu province awarded Trauson Jiangsu the title of "Science and Technology Private Enterprise". Concurrently, Trauson Jiangsu garnered the approval from the provincial Science and Technology Department to establish the Jiangsu Research Center for Minimally Invasive Orthopaedic Devices. In addition, the Office of Human Resources and Social Security of Jiangsu province assessed and approved the establishment of a postdoctoral workshop by Trauson Jiangsu.

d) **Market Coverage:**

Domestic Sales

The Group continuously enhanced its distribution network during the year. We are committed to serving our distributors and hospitals better, improving our product portfolio, and increasing market share. Our domestic sales team is now divided into six regions in China to enhance customer service, better exploit new market opportunities, and eliminate underperforming distributors. In 2010, the Group added 67 distributors and expanded services to 77 new hospitals. At the end of 2010, the Group's distribution and sales network in China consisted of 450 distributors covering over 3,000 hospitals.

Among the six regions, Southern China contributed the largest portion to the overall sales accounting for 23% of total sales for 2010. Other five regions include Southwestern China, Central China, Eastern China, Northern China, and Northwestern China which contributed to 19%, 18%, 17%, 15% and 8% of total revenue for 2010, respectively.

International Sales

On the international front, in 2010, the Group focused on developing our distribution channels, registering our products, and marketing our own branded products. The regions of focus are South America and Eastern Europe. In 2010, sales generated outside China were approximately RMB15,574,000, an increase of 28.62% as compared with 2009, and represented 5.36% of the Group's overall revenue. The Group believes that international sales will continue to develop steadily in 2011 after expanding our sales channels.

3. PROSPECTS AND OUTLOOK OF THE COMPANY

The Group will strengthen academic collaborations with hospitals and scientific research institutes, strengthen needs-oriented medical research by putting more efforts on new materials research and new product development. The Group will also expand product series by devoting more to research and development of high value-added orthopaedic implants in order to maintain the leading position in the orthopaedic trauma product market in China.

The Group will increase its participation and promotion of academic activities, including attending more academic seminars and conferences organized by the orthopaedic branches of provincial and municipal medical associations. In addition, the Group will continue to partner with the Trauma Division of the Chinese Medical Association to organize the "Continuing Education Project" for orthopaedic physicians in third-tier cities. As a part of this project, the Group has formed three groups of expert consultants – one for each of the orthopaedic specialities: trauma, spine, and joints. Additionally, the Group will strengthen our cooperation with leading orthopaedic journals to enhance Trauson Holdings' brand image and product promotion. Last, but not least, the Group will continue to bear its social responsibility. The Group will continue its "Trauson's Care Project" which was established in conjunction with the China Charity Federation to combat scoliosis. Through this project, the Group aims to help build an upright future for affected children with its technology.

In regards to sales network, the Group will actively exploit new markets while maintaining its leadership in the existing markets. Domestically, one of our focuses this year is to expand the business in the inland cities beyond the coastal regions where we have established a strong footprint. Along with the continued development of China's economy, increased reforms of China's healthcare sector, and heightened financial support from the government to enhance healthcare coverage, the Group firmly believes that the growth of China's healthcare market in the inland regions will continue to experience significant growth and bring about more business opportunities for the Group. Through the continued expansion of its distribution networks in the inland regions, the Group is well positioned to seize these opportunities.

While actively expanding its sales coverage, the Group is also enhancing our services to hospitals. Through frequent interactions with hospitals and doctors, Trauson Holdings' marketing team has garnered a better understanding of the end customers' needs. With this knowledge, we strive to provide hospitals and doctors with better products and outstanding services. Through our efforts, we believe that doctors will gain a better appreciation and knowledge of Trauson Holdings' products, thereby strengthening our brand image in the process, which in turn will help expand the network of hospital customers.

Apart from solidifying the Group's leading position in China's market, the Group is also placing more emphasis on international sales. The Group's international focus is mainly placed on the developing countries, including South America, Eastern Europe, India and the Middle East. The Group's products are competitive in our target international markets not only in terms of price but also of quality. Moreover, the demand for China-made medical devices is potentially significant in overseas markets, particularly in the developing countries.

On the merger-and-acquisition front, the Group is continuously exploring opportunities that would result in synergistic effect to its existing businesses. Our senior management's intimate knowledge of China's medical services industry coupled with our strong distribution network give the Group an edge in consolidating the market, in our view. Our management believes that through strategic investments and acquisitions, the Group will further solidify its leading position in China's orthopaedic device market.

In terms of new product pipeline, 5 products are expected to be launched in 2011: 4 trauma products and 1 spine product. Additionally, 3 spine products will start clinical trials in 2011.

The Group will increase its scientific research collaboration with academic institutions and hospitals. Moreover, we plan to engage more industry elites through fellowship workshops and postdoctoral programs, thereby enhancing our research and development capabilities. In particular, we will place more emphasis on materials research as well as new product development. These efforts should help the Group maintain its leading research and development position in China's domestic market.

4. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 938 full-time employees and the breakdown by department as compared to 2009 is as follows:

Department	2010	2009
Production and quality control	692	644
Sales and marketing	63	59
Research and development	72	68
Management, financial, human resources and regulatory compliance	99	60
Others	12	9
Total	938	840

For the year ended 31 December 2010, the Group's total cost on remunerations, welfare and social security amounted to approximately RMB58,277,000 (2009: RMB39,025,000).

The remuneration system of the Group is based on employee performance, local consumption level and competition in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

5. FINANCIAL REVIEW

Revenue

The revenue for the year ended 31 December 2010 increased by RMB79,257,000 or 37.48% to RMB290,742,000 as compared with RMB211,485,000 for the year ended 31 December 2009. The increase was primarily attributable to the growth in sales of trauma and spine products as well as OEM products.

The following table sets forth a breakdown of the Group's revenue by product category for the year ended 31 December 2010:

	For the year ended 31 December			
	2010		2009	
	Revenue	**Percentage**	Revenue	Percentage
	RMB'000	**%**	RMB'000	%
Trauma products	**183,626**	**63.16**	135,417	64.03
Spine products	**34,274**	**11.79**	31,366	14.83
OEM products	**57,804**	**19.88**	31,418	14.86
Others	**15,038**	**5.17**	13,284	6.28
Total	**290,742**	**100.00**	211,485	100.00

Revenue from trauma products increased by RMB48,209,000 or 35.60% to RMB183,626,000, accounting for 63.16% of total revenue in 2010. Revenue from trauma products as a percentage of the total revenue remains stable as compared with 2009. The increase in revenue from trauma products was primarily due to the increase in sales volume resulted from expanding distribution network of the Group.

Revenue from spine products increased by RMB2,908,000 or 9.27% to RMB34,274,000, accounting for 11.79% of the total revenue in 2010, as compared with RMB31,366,000 or 14.83% of the Group's total revenue for 2009. Revenue from spine products as a percentage of the total revenue decreased by 3.04 percentage points.

Revenue from OEM products increased by RMB26,386,000 or 83.98% to RMB57,804,000, accounting for 19.88% of the total revenue in 2010, as compared with RMB31,418,000 or 14.86% of the Group's total revenue in 2009. This was primarily due to the increase of orders placed by the Group's OEM customer.

Gross Profit and Gross Profit Margin

As a result of the above mentioned factors, gross profit increased significantly by RMB62,141,000 or 41.64% to RMB211,364,000 for the year ended 31 December 2010, as compared to RMB149,223,000 in 2009.

Cost of sales increased by RMB17,116,000 or 27.49% to RMB79,378,000 for the year ended 31 December 2010, as compared to RMB62,262,000 for the year ended 31 December 2009. The gross profit margin rose by 2.14 percentage points to 72.70% in 2010 as compared to 70.56% in 2009, which was mainly achieved by the Group's continuing efforts in adjusting its product mix towards higher-margin products.

Other Income and Other Gains and Losses

Other income and other gains and losses decreased by approximately RMB3,405,000 to net loss of RMB2,311,000 for the year ended 31 December 2010, as compared to net gain of RMB1,094,000 in 2009.

The table below sets forth a breakdown of other income and other gains and losses for the 2009 and 2010:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Interest income	**5,948**	876
Net foreign exchange loss	**(16,557)**	(31)
Gain (loss) on disposal of fixed assets	**111**	(15)
Government subsidy	**8,054**	–
Others	**133**	264
Total	**(2,311)**	1,094

Other Expenses

Other expenses increased by approximately RMB11,370,000 to RMB13,906,000 for the year ended 31 December 2010, as compared to RMB2,536,000 in 2009. The increase in other expenses was primarily due to the Company's listing expenses with an amount of approximately RMB13,685,000.

Distribution and Selling Expenses

Distribution and selling expenses decreased by RMB3,535,000 or 16.49% to RMB17,896,000 for the year ended 31 December 2010, as compared to RMB21,431,000 in 2009. This was primarily due to a decrease of sample fees as a result of the change of the Company's sales strategies from providing free instruments to offering discounts based on actual purchases from distributors.

Administrative and General Expenses

Administrative and general expenses increased by RMB15,314,000 to RMB36,725,000 for the year ended 31 December 2010, as compared to RMB21,411,000 in 2009. The increase was primarily due to an increase in headcount, salaries for administrative staff, staff welfare, and traveling expenses.

Research and Development Expenses

Research and development expenses in relation to the development of new products (including salaries and welfare paid to research and development staff) increased by RMB907,000 to RMB10,617,000 for the year ended 31 December 2010, as compared to RMB9,710,000 in 2009.

Profit Before Tax

As a result of the above mentioned factors, the Group's profit before tax increased by RMB35,523,000 or 37.77% to RMB129,584,000 for the year ended 31 December 2010, as compared to RMB94,061,000 in 2009. The increase in profit before tax was due to increase in revenue and reduction in costs as a result of the Group's improvement in production efficiency.

Income Tax Expense

Income tax expense increased by RMB11,443,000 or 96.31% to RMB23,325,000 for the year ended 31 December 2010, as compared to RMB11,882,000 in 2009. The effective tax rate for the Group of 2010 and 2009 was 18.00% and 12.60%, respectively. The increase in effective tax rate was mainly due to the fact that Changzhou Orthmed qualified as a foreign invested enterprise and enjoyed full tax exemption in 2009, but it was subject to EIT tax rate of 12.50% in 2010; as well as the fact that certain expenses (including listing expenses) were not allowed for tax deduction in 2010.

Net Current Assets

With the improvement of the Company's capital structure and the increase in cash flow from operations, net current assets amounted to RMB783,073,000 as at 31 December 2010 as compared with RMB122,196,000 as at 31 December 2009. The increased amount primarily consists of trade receivables and other receivables of approximately RMB28,148,000 and an increase in bank deposit and cash of approximately RMB640,372,000.

Liquidity

The financial resources of the Group became more sufficient with the proceeds from listing. Bank balances and cash held by the Group were RMB698,766,000 and RMB58,394,000 on 31 December 2010 and 31 December 2009, respectively.

Gearing Ratio

The Group's gearing ratio as at 31 December 2010 was approximately 0%, which decreased significantly by approximately 18.06 percentage points from approximately 18.06% as at 31 December 2009. The decrease was mainly due to the significant increase in the Group's current assets as the Group raised HK$715,851,000 from the successful listing and the repayment of bank loans during the year.

Exchange Rate Risks and Counter Measures

Constrained by the control over conversion of foreign currencies for capital items, the Group's net foreign exchange loss due to appreciation of Renminbi was approximately RMB16,557,000 in 2010 and the Group has adopted various measures such as active exchange settlement and foreign currencies management to alleviate the adverse impact brought about by the loss in currency exchange.

Contingent Liabilities

The Group was named as a defendant 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. In one of these cases, the plaintiff claims unspecified damages for alleged unsatisfactory orthopaedic operation involving the Group's products, and therefore the directors of the Company are not able to quantify reliably such claim. As at 31 December 2010, the aggregate amount of claims in respect of all other outstanding cases amounted to approximately RMB2 million (2009: RMB2 million).

After seeking legal opinion and taking into account the facts that (i) for cases that were settled or finalised in prior years, the Group has a history of winning most of the cases as the plaintiffs failed to prove the Group's products in questions were defective or did not meet the required quality standards; and (ii) for two cases which the Group was held liable, the amount paid by the Group as compensation in each case was 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 for any potential liability is necessary to be made in the consolidated financial information.

Bank Loans

The Group repaid short-term bank loans of RMB20,000,000 and RMB10,000,000 on 15 July 2010 and 2 August 2010 respectively. Consequently, the Group repaid the total outstanding short-term bank loans of RMB30,000,000 as at 30 June 2010 in August 2010.

Save as disclosed above, as at 31 December 2010, the Group did not have any debt capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, notes, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Use of the Proceeds from Listing

The shares of the Company were listed on the HKSE on 29 June 2010. The net proceeds received by the Company from listing (including the issue of shares pursuant to the exercise of the over-allotment option and after deducting the relevant expenses), were approximately HK$715,851,000.

The Group does not anticipate any material change to its plan on the use of proceeds as stated in the prospectus of the Company dated 15 June 2010. As at the date of this report, the Group has thus far utilised approximately RMB23,411,000 for expansion of production capacity, RMB3,200,000 for research and development and RMB19,800,000 for working capital and general corporate purposes.

The board (the "Board") of directors (the "Directors") of the Company is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework for the Company to formulate its business strategies and policies, and manage and lower the associated risks through effective internal control procedures. It will also enhance the transparency of the Company and strengthen the accountability to its shareholders and creditors.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and certain best practices. The Company has complied with all the applicable code provisions in the Code throughout the period from 29 June 2010 (the "Listing Date") to 31 December 2010, except for the deviation from code provision A.2.1 of the Code of which the details are set out and evaluated below. The Company has also adopted certain best practices with an aim to attaining better corporate governance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry to all Directors, it is confirmed that all the Directors have complied with the standards as stipulated in the Model Code throughout the period from the Listing Date to 31 December 2010.

BOARD OF DIRECTORS

For the period from the Listing Date to 31 December 2010, and as at the date of this annual report, the Board comprised the following members:

Mr Qian Fu Qing	Chairman, chief executive officer and executive Director (appointed as Director on 27 January 2010 and appointed as chairman and chief executive officer on 10 June 2010)
Ms Ren Feng Mei	Executive Director (appointed on 10 June 2010)
Mr Cai Yong	Executive Director (appointed on 10 June 2010)
Ms Xu Yan Hua	Non-executive Director (appointed as Director on 27 January 2010 and redesignated as non-executive Director on 10 June 2010)
Mr Ng Ming Chee, James	Non-executive Director (appointed on 24 August 2010)
Mr Chan Yuk Tong	Independent non-executive Director (appointed on 10 June 2010)
Mr Zhao Zi Lin	Independent non-executive Director (appointed on 10 June 2010)
Dr Lu Bing Heng	Independent non-executive Director (appointed on 10 June 2010)

The Directors' biographical details are set out in the section "Directors and Senior Management" on page 27 to page 30 of this annual report.

During the period from the Listing Date to 31 December 2010, the Board had held two regular meetings, the notices of which were sent to all the Directors 14 days prior to respective dates of the meetings. The agenda and relevant documents of the Board meetings were circulated to the Directors in advance, such that the Directors had sufficient time to prepare for their discussion on the agenda at the meetings. Besides statutory responsibilities, the Board is responsible for approval of the Company's business strategies, annual budget, major operation plans, major investment and funding decisions. The executive Directors are delegated the power to execute the business strategies approved by the Board, as well as to develop and implement the policies for the daily operation of the Company. The independent non-executive Directors would provide their professional advices to the Company whenever is necessary. The Board has passed resolutions to grant appropriate authorization to the chairman of the Board on the approval of expenditures. The Board has commissioned the management staff to deal with the daily business and administration work of the Company, and the chief executive officer to supervise the management staff.

The composition of the Board (including the names of the independent non-executive Directors) is disclosed in all corporate correspondences sent to the Company's shareholders.

All Directors have full and timely access to all the information and accounts of the Company. Under appropriate circumstances, the Directors may seek independent professional advice at the expense of the Company. Upon request, the Company would provide specific professional advice to the Directors to facilitate the performance of their duties for the Company. The Company has provided suitable insurance coverage for the Directors.

Ms Xu Yan Hua, a non-executive Director of the Company, is the spouse of Mr Qian Fu Qing, the chairman of the Board, chief executive officer and executive Director. Save as disclosed above, none of the members of the Board has other relationship(s) with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 set out in Appendix 14 to the Listing Rules, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Although Mr Qian Fu Qing assumes both the roles of chairman and chief executive officer, the divisions of responsibilities between the two roles are clearly defined. On the whole, the role of chairman is responsible for monitoring the duties and performance of the Board, whereas the role of chief executive officer is responsible for managing the Group's business. The Board believes that at the current stage of development of the Group, vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The chairman of the Board not only performs the code provisions, but also adopts the best practices in A.2.4 set out in Appendix 14 to the Listing Rules. Assisted by the secretary for the Board, the chairman is responsible for the determination and approval of the agenda of each Board meeting, and if appropriate, the inclusion of any matter proposed by other Directors in the agenda.

NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10 of the Listing Rules, the Company has three independent non-executive Directors, constituting over one third of the Board. Among them, Mr Chan Yuk Tong possesses appropriate knowledge in professional accounting, auditing and financial management. The Company has received the written confirmation from all the independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

The term of office for each of the independent non-executive Directors is three years and would expire on 9 June 2013.

The term of office for Ms Xu Yan Hua, a non-executive Director, is three years and would expire on 9 June 2013. The term of office for Mr Ng Ming Chee James, the other non-executive Director, would expire on 1 September 2011.

The term of office for each of the non-executive Directors (including independent non-executive Directors) is subject to the continuance provisions of the Company's Articles of Association and the Listing Rules.

REMUNERATION COMMITTEE

The Company established its remuneration committee on 10 June 2010 which took effect on the Listing Date. The majority of the remuneration committee comprises independent non-executive Directors, and the incumbent members are Mr Zhao Zi Lin, Dr Lu Bing Heng and Mr Qian Fu Qing, of which Mr Zhao Zi Lin is the chairman. The primary duties of the remuneration committee of the Company include:

(a) make recommendations to the Board on the remuneration policy and structure of the Company's Directors and senior management;

(b) determine the remuneration of all executive Directors and senior management, and make recommendations to the Board on the remuneration of non-executive Directors;

(c) review and approve individual performance-based remuneration with reference to corporate goals and objectives as resolved by the Board from time to time;

(d) review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their offices or appointments to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and reasonable and would not create excessive burden on the Company;

(e) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) ensure that no Director or any of his associates is involved in determining his own remuneration.

The Company has a developed set of remuneration assessment policies; a substantial proportion of the remuneration of executive Directors is linked to the results of the Company and individual performance. The remuneration committee considers that the Company's remuneration policies have been playing an active role in retaining a strong management team and in achieving the Company's objectives. The remuneration committee shall hold at least one meeting per year. During the period from the Listing Date to 31 December 2010, the remuneration committee held two meetings and had recommended remuneration packages for the Directors and senior management for the Board's consideration.

NOMINATION COMMITTEE

The Company has established the nomination committee in compliance with the best practice requirement of Appendix 14 to the Listing Rules. The nomination committee was established on 10 June 2010, which took effect on the Listing Date, to make recommendations for the Board's consideration on the candidates to fill vacancies in the Board. The Board may from time to time and at any time consider any person as Director to fill a casual vacancy or be added to the Board as a new Director, and the term of office of a Director so appointed shall expire at the time of the next general meeting of the Company, when he is eligible for election at the meeting. At the annual general meeting of the Company, one third of the current Directors (or the proportion nearest to but not less than one third if the number of Directors is not three or the multiples of three) have to retire by rotation, but each Director (including the Director with a specific term of appointment) must retire by rotation at least once for every three years. A retiring Director's term of office expires at the conclusion of the meeting (at such meeting he shall retire but is eligible for election). The Company may re-elect the same number of Directors to fill the vacancies at any annual general meeting at which there are Directors retiring.

The incumbent members of the nomination committee are Dr Lu Bing Heng, Mr Chan Yuk Tong and Mr Qian Fu Qing. Among them, Dr Lu Bing Heng and Mr Chan Yuk Tong are independent non-executive Directors. The chairman of the nomination committee is Dr Lu Bing Heng.

The primary duties of the nomination committee of the Company include:

(a) regularly review the composition of the Board, and make recommendations to the Board on any proposed change;

(b) identify and nominate candidates for the Board's consideration;

(c) assess the independence of the independent non-executive Directors; and

(d) make recommendations for the Board's consideration on the succession plan of the chairman and chief executive officer.

The nomination committee resolves to approve any recommendation on proposed Directors by way of a poll. On selecting suitable candidates for membership of the Board, the Board would consider various factors, such as education background, professional title, experience and reputation of candidates. The nomination committee shall hold meeting(s) prior to the annual general meeting to consider the appointment of Directors. During the period from the Listing Date to 31 December 2010, the nomination committee had held one meeting and recommended to the Board the appointment of a non-executive Director.

EXTERNAL AUDITORS' REMUNERATION

During the year ended 31 December 2010, the remuneration paid/payable to Deloitte Touche Tohmatsu, the external auditors of the Company, amounted to approximately RMB2,100,000.

In addition, Deloitte Touche Tohmatsu provided non-audit services to the Company during the year ended 31 December 2010 and received remuneration of RMB270,000. As confirmed by the audit committee of the Company, the provision of these services did not have an impact on their independence.

AUDIT COMMITTEE

The Company established the audit committee on 10 June 2010, which took effect on the Listing Date. The written terms of reference of the audit committee are defined in accordance with the requirements of the Listing Rules. The audit committee comprises three members, namely Mr Chan Yuk Tong, Mr Zhao Zi Lin and Ms Xu Yan Hua; among whom Mr Chan Yuk Tong and Mr Zhao Zi Lin are independent non-executive Directors. The Chairman of the audit committee is Mr Chan Yuk Tong.

The primary duties of the audit committee include:

(a) be responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any matters concerning the resignation or removal of such external auditors.

(b) prior to the commencement of the audit, review the independence and objectivity of the external auditors, the effectiveness of the audit process, and the nature and scope of the audit and report obligations;

(c) prior to the Board's approval, review the annual and interim financial reports;

(d) develop and implement policies on the engagement of the external auditors to provide non-audit services;

(e) review the scope and quality of the internal control system in conjunction with the management and ensure that the management has discharged its duty to establish an effective internal control system;

(f) review the Group's financial and accounting policies and practices; and

(g) ensure that the Board responds timely to matters raised in the management letter on the Company's audit issued by the external auditors.

The audit committee shall hold at least four meetings per year. During the period from the Listing Date to 31 December 2010, the audit committee had held two meetings.

Pursuant to the Company's Articles of Association, the term of office of Deloitte Touche Tohmatsu, the external auditors of the Company, will expire at the conclusion of the 2010 annual general meeting. The audit committee has recommended to the Board the reappointment of Deloitte Touche Tohmatsu as the external auditors of the Company for the year 2011, which is subject to the approval of shareholders at the annual general meeting of 2010.

DIRECTORS' ATTENDANCE AT MEETINGS

During the period from the Listing Date to 31 December 2010, Directors' attendance at meetings of the Board, the audit committee, the remuneration committee and the nomination committee is set out as follows:

		No. of meetings attended/ held		
Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr Qian Fu Qing	2/2	N/A	2/2	1/1
Ms Ren Feng Mei	2/2	N/A	N/A	N/A
Mr Cai Yong	2/2	N/A	N/A	N/A
Non-executive Directors				
Ms Xu Yan Hua	2/2	2/2	N/A	N/A
Mr Ng Ming Chee James*	1/1	N/A	N/A	N/A
Independent Non-executive Directors				
Mr Chan Yuk Tong	2/2	2/2	N/A	1/1
Dr Lu Bing Heng	2/2	N/A	2/2	1/1
Mr Zhao Zi Lin	2/2	2/2	2/2	N/A

* Mr Ng Ming Chee James was appointed by the Board as a non-executive Director of the Company on 24 August 2010; therefore he did not attend the meeting of the Board held on that day.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility of preparing the Company's financial statements which provide a true and fair view of the Group's financial position, earnings and cash flows for the year ended 31 December 2010. The Directors have prepared the Company's financial statements on a going concern basis, consistently adopted appropriate account policies, and made appropriate disclosures pursuant to the Listing Rules and in accordance with relevant laws and regulations.

The statement issued by Deloitte Touche Tohmatsu, the external auditors of the Company, regarding their reporting responsibility is set out in the section "Independent Auditor's Report" on page 40 to page 41 of this annual report.

INTERNAL CONTROL

The internal control system of the Company is designed to provide reasonable but not absolute assurance against material misstatement or loss and manages rather than eliminates the risks of failure in operational systems. The Board is fully responsible for maintaining the internal control of the Company, and the formulation of appropriate policies based on the Company's objectives. The Board reviews the effectiveness of the Company's financial and non-financial internal control system through the audit committee. The Board and the audit committee would assign the internal audit department to review the Company's internal control system. For the year ended 31 December 2010, such review covered all substantial controls, including finance, operation, compliance controls and risk management. The internal audit department found no significant deficiency in the course of the review for the year ended 31 December 2010; and therefore the Board and the audit committee consider the prevailing internal control system of the Company as effective and adequate.

COMMUNICATION WITH SHAREHOLDERS

The Company, through various formal channels, provides information in relation to the Group to the shareholders in a timely manner, which include interim and annual reports, announcements and circulars. Such published documents and corporate information of the Company can be accessed on the Company's website.

The chairman of the Board of the Company maintains effective communication by means of investor meetings and investor visits; and communicates closely with shareholders, analysts and the media through the investor relations department.

During the period between the Listing Date and 31 December 2010, no shareholders' meeting of the Company was held.

Mr Qian Fu Qing (錢福卿先生), aged 56, is the founder, chairman and chief executive officer of the Group. He was appointed as the chairman and an executive Director of the Company on 27 January 2010 and has assumed the role of chief executive officer since 10 June 2010. Mr Qian is also a Director of the principal subsidiaries of the Company. Mr Qian is primarily responsible for the overall corporate strategies, planning and business development of the Group. He has extensive experience in the research, development, manufacture and sale of orthopaedic products and related instruments in the PRC. 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 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. Mr Qian is the spouse of Ms Xu Yan Hua, a non-executive Director of the Company, and is the uncle-in-law of Ms Li Ya Wen, a member of the senior management.

Ms Ren Feng Mei (任鳳妹女士), aged 46, has been an executive Director of the Company since 10 June 2010. She initially joined Changzhou Orthmed in December 2004 as production manager and became the chief operating officer of the Group in May 2009. Ms Ren is primarily responsible for overseeing the production activities of the Group. Between 1983 and 2002, Ms Ren was a director of the orthopaedic products testing office of the 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 (國家藥監局), mainly responsible for product testing, supervision and random inspection of domestic orthopaedic product quality, and formulating and amending basic orthopaedic industry standards. Between 1999 and 2002. Ms Ren 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 currently 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 36, has been an executive Director of the Company since 10 June 2010. He joined Trauson Jiangsu since its establishment in 2003 and has been the research and development director of the Group since October 2005. Mr Cai is primarily responsible for the research and development of new products of the Group and the collaboration with university research centres and surgeons on new product research. Mr Cai is a senior engineer (高級工程師) with extensive of experience in design, research and development. He 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 55, has been a non-executive Director of the Company since 27 January 2010. Ms Xu is also the controlling shareholder of the Company and a director of a number of the Company's subsidiaries. In 1991, Ms Xu completed a course on township industry economics and management (鄉鎮工業經濟管理) at Nanjing Normal University (南京師範大學). Ms Xu is the spouse of Mr Qian Fu Qing, the chairman and chief executive officer of the Company, and the aunt-in-law of Ms Li Ya Wen, a member of senior management.

Mr Ng Ming Chee James (黃晞華先生), aged 45, has been the Company's non-executive Director since 24 August 2010. He 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. Mr Ng has over 20 years of experience in finance and accounting. 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. He is also a member of CPA Australia.

Independent Non-executive Director

Mr Chan Yuk Tong (陳育棠先生), aged 48, was appointed as independent non-executive Director of the 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. Mr Chan has over 20 years of experience in audit, accounting, management consulting and financial consulting services. 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 June 2010
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 November 2010
Thurnder Sky Battery Limited (formerly known as Jia Sheng Holdings Limited and Carico Holdings Limited)	Independent non-executive Director	November 2006 to present
Kam Hing International Holding Limited	Independent non-executive Director	March 2004 to present
Xinhua Winshare Publishing and Media Co., Ltd (formely known as 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.

Dr Lu Bing Heng (**盧秉恒博士**), aged 66, was appointed as independent non-executive Director of the 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 (西安交通大學) 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. He has been serving as an independent director of Luoyang Bearing Science and Technology Co., Ltd, a company listed on the Shenzhen Stock Exchange, since November 2007.

Mr Zhao Zi Lin (**趙自林先生**), aged 62, was appointed as independent non-executive Director of the 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 taking up his current position in CAME, Mr Zhao was the director-general of the Department of Planning and Finance of the Ministry of Health from 2005 to 2010 and the deputy director-general of the same department from 1998 to 2005.

Senior Management

Mr Wang Chong Guang Charles (**王重光先生**), aged 45, has been the chief financial officer of the Company since December 2010. Mr. Wang has more than 20 years' experience in financial management, corporate finance and merger and acquisition. Before joining the Company, Mr Wang served for approximately two years as the chief financial officer of Tongjitang Chinese Medicines Company, a pharmaceutical manufacturer and distributor in the PRC that is listed on the New York Stock Exchange. Prior to that, Mr Wang served for more than nine years as the chief financial officer of a leading medical services group in the Asia Pacific region. Mr Wang had also previously worked for professional accountancy firms in both England and Hong Kong, as well as for the Asia-Pacific headquarters of an industrial conglomerate listed on the London Stock Exchange. Mr Wang received his bachelor's degree in economics and accountancy from Leeds University in the United Kingdom in 1988 and has been a member of the Institute of Chartered Accountants of England and Wales since 1991.

Mr Gao Yi (**高一先生**), aged 40, is the production director of Trauson Jiangsu. He joined the Group in February 2007 as an assistant to the chairman of the Group. Mr Gao is primarily responsible for the daily manufacturing activities of Trauson Jiangsu, including production planning, raw material procurement and product quality control. Prior to joining the Group, he held managerial positions in a number of factories owned by leading Japanese companies, including Fujitsu and 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.

Ms Li Ya Wen (李亞文女士), aged 43, is the national sales manager of Trauson Jiangsu. She joined Trauson Jiangsu in 2003 and was promoted to the present position in March 2009. She is primarily responsible for overseeing the sale of products by Trauson Jiangsu in the domestic market. Ms Li completed an EMBA programme conducted by the Overseas Education College of Shanghai Jiaotong University in 2008. She is the niece-in-law of the chairman and Ms Xu Yan Hua.

Mr Wu Cheng (吳成先生), aged 32, is the national sales manager of Changzhou Orthmed. He initially joined Changzhou Orthmed as sales manager in November 2005 and was promoted to the current position in July 2008. He is primarily responsible for overseeing the sale of products by Changzhou Orthmed in the domestic market.

Company Secretary

Ms Ma Sau Kuen Gloria (馬秀絹女士), aged 52, has been the Company Secretary and Authorised Representative of the Company since 19 November 2010. Ms Ma has almost 30 years of experience in corporate secretarial work as well as extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms Ma is a director and the head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a fellow of the Hong Kong Institute of Chartered Secretaries, and of the Institute of Chartered Secretaries and Administrators in the United Kingdom.

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

The Company is incorporated in the Cayman Islands and the shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "HKSE") since 29 June 2010 (the "Listing Date"). The address of its principal place of business is 9 Longmen Road, Wujin High-tech Industrial Development Zone, Changzhou City, Jiangsu Province, PRC (Postal Code 213164).

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the principal subsidiaries are set out in note 34 to the consolidated financial statements.

During the year, there were no significant changes in the nature of the Group's principal activities.

FINANCIAL RESULTS

The Group's profit and cash flows for the year ended 31 December 2010 and the financial position of the Company and the Group as at that date are set out in the consolidated financial statements on pages 42 to 92 of this annual report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last four financial years are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the Company's share capital during the year, together with the reasons therein, are set out in note 27 to the consolidated financial statements.

There were no outstanding share options throughout the year.

USE OF THE PROCEEDS FROM LISTING

The shares of the Company were listed on the HKSE on 29 June 2010. The net proceeds received by the Company from Listing (including the issue of shares pursuant to the exercise of the over-allotment option and after deducting the relevant expenses), were approximately HK$715,851,000.

The Group does not anticipate any material change to its plan on the use of proceeds as stated in the prospectus of the Company dated 15 June 2010. As at the date of this report, the Group has thus for utilised approximately RMB23,411,000 for expansion of production capacity, RMB3,200,000 for research and development and RMB19,800,000 for working capital and general corporate purposes.

DIVIDEND

There was no interim dividend distributed during the year. The Board proposed a final dividend of RMB3.57 cents per ordinary share for the year ended 31 December 2010.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sale or redemption of the Company's listed securities by the Company or any other subsidiaries during the period from the Listing Date to 31 December 2010.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the consolidated financial statements and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2010, in accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's Articles of Association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the balance sheet date, the Directors were of the opinion that the distributable share premium and reserves of the Company amounted to approximately RMB583,191,000.

PROPERTY, PLANT AND EQUIPMENT

The details of change in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

CHARITY DONATIONS

The charity donations made by the Group during the year amounted to approximately RMB205,000.

BORROWINGS

As at 31 December 2010, the Group and the Company did not have any bank loans and other borrowings.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases during the year attributable to the major customers and suppliers, respectively, is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	19.88%	–
Five largest customers in aggregate	37.83%	–
The largest supplier	–	23.67%
Five largest suppliers in aggregate	–	55.07%

At no time during the year have the Directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

DIRECTORS

At the Listing Date and as at the date of this report the Company's directors comprise the following:

Executive Directors

Mr Qian Fu Qing (appointed as Director on 27 January 2010 and appointed as chairman and chief executive officer on 10 June 2010)
Ms Ren Feng Mei (appointed on 10 June 2010)
Mr Cai Yong (appointed on 10 June 2010)

Non-executive Directors

Ms Xu Yan Hua (appointed as Director on 27 January 2010 and redesignated as a non-executive Director on 10 June 2010)
Mr Ng Ming Chee, James (appointed on 24 August 2010)

Independent Non-executive Directors

Mr Chan Yuk Tong (appointed on 10 June 2010)
Dr Lu Bing Heng (appointed on 10 June 2010)
Mr Zhao Zi Lin (appointed on 10 June 2010)

In accordance with Articles 16.2 and 16.3 of the Articles of Association, Dr Lu Bing Heng, Mr. Zhao Zi Lin, Mr Chan Yuk Tong, Mr Ng Ming Chee James, Ms Xu Yan Hua, Mr Qian Fu Qing, Mr Cai Yong and Ms Ren Feng Mei will retire at the forthcoming annual general meeting, but are eligible and willing to offer themselves for re-election as Directors.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on page 27 to page 30 of this annual report under the section headed "Directors and Senior Management".

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any subsidiary of the Company, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a material interest in either directly or indirectly, any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDER

As disclosed in the prospectus of the Company dated 15 June 2010, Ms Xu Yan Hua, Luna Group Holdings Limited and Mr Qian Fu Qing (together, the "Covenantors") entered into a deed of non-competition ("Non-Competition Deed") dated 10 June 2010 in favour of the Company for itself and on behalf of its subsidiaries, pursuant to which each of the Covenantors had undertaken to the Company that, during the non-competition period, 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 the Group from time to time.

Each of the Covenantors had confirmed its/his/her compliance with the Non-Competition Deed for the year.

The independent non-executive Directors have reviewed the Covenantors' compliance with the Non-Competition Deed. The independent non-executive Directors confirmed, to the best of their knowledge, that the Covenantors did not breach the terms of the Non-Competition Deed.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 to the Listing Rules), were as follows:

Long positions in the shares and underlying shares of the Company

Name of Directors	Capacity/Nature of interest	Number of shares held	Approximate percentage of interest in the Company
Mr Qian Fu Qing *(Note2)*	Interest of spouse	477,945,000	61.72%
Ms Xu Yan Hua *(Notes 1&2)*	Interest of controlled corporation	477,945,000	61,72%

Notes:

1. The entire issued share capital of Luna Group Holdings Limited is solely and beneficially owned by Ms Xu Yan Hua ("Ms Xu"). Ms Xu is deemed under the SFO to be interested in the 477,945,000 shares (long position) held by Luna Group Holdings Limited.

2. Mr Qian Fu Qing, the spouse of Ms Xu, is also deemed to be interested in the 477,945,000 shares (long position) in which Ms Xu is deemed to be interested.

Save as disclosed above, as at 31 December 2010, none of the Directors and the chief executives of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2010, the interests and short positions of the substantial shareholders of the Company (other than the Directors and the chief executives of the Company) in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity/ Nature of interest	Number of shares (long position)	Approximate percentage of interest in the Company
Luna Group Holdings Limited *(Note 1)*	Beneficial owner	477,945,000	61.72%
Central Huijin Investment Ltd. *(Note 2)*	Controlled corporation	55,940,625	7.22%
China Construction Bank Corporation *(Note 2)*	Controlled corporation	55,940,625	7.22%
CCB International Group Holdings Limited *(Note 2)*	Controlled corporation	55,940,625	7.22%
CCB Financial Holdings Limited *(Note 2)*	Controlled corporation	55,940,625	7.22%
CCB International (Holdings) Limited *(Note 2)*	Beneficial owner	55,940,625	7.22%
CCB International Assets Management (Cayman) Limited *(Note 2)*	Controlled corporation	55,940,625	7.22%
CCB International Asset Management Limited *(Note 2)*	Controlled corporation	55,940,625	7.22%
Honest Fame Investment Limited *(Note 2)*	Nominee of another person	55,940,625	7.22%
Baring Asset Management Limited	Investment manager	55,063,000	7.11%
Northern Trust Fiduciary Services (Ireland) Limited	Trustee	40,067,000	5.17%

Notes:

1. The entire issued share capital of Luna Group Holdings Limited is solely and beneficially owned by Ms Xu Yan Hua, who is deemed under the SFO to be interested in the 477,945,000 shares (long position) held by Luna Group Holdings Limited.

2. Such 55,940,625 shares refer to the same batch of shares.

Save as disclosed above, so for as was known to the Directors of the Company, no other persons as at 31 December 2010, had or was deemed to have an interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 33 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules but are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and to the best knowledge of the Directors of the Company, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this annual report.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules are set out on page 19 to page 26 of this annual report.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers each of the independent non-executive Directors to be independent.

AUDITORS

The consolidated financial statements set out in this report were audited by Deloitte Touche Tohmatsu, which will retire and, being eligible, offer themselves for re-election. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
TRAUSON HOLDINGS COMPANY LIMITED
Chairman and Chief Executive Officer
Qian Fu Qing

Hong Kong, 25 March 2011

Deloitte.
德勤

TO THE MEMBERS OF TRAUSON HOLDINGS COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Trauson Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 92, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	7	**290,742**	211,485
Cost of sales		**(79,378)**	(62,262)
Gross profit		**211,364**	149,223
Other income and other gains and losses	8	**(2,311)**	1,094
Distribution and selling expenses		**(17,896)**	(21,431)
Administrative and general expenses		**(36,725)**	(21,411)
Research and development expenses		**(10,617)**	(9,710)
Other expenses	9	**(13,906)**	(2,536)
Interest expenses in relation to bank loans wholly repayable within five years		**(325)**	(846)
Share of loss of an associate		**-**	(322)
Profit before tax	10	**129,584**	94,061
Income tax expense	12	**(23,325)**	(11,882)
Profit for the year and total comprehensive income for the year		**106,259**	82,179
Attributable to owners of the Company		**106,259**	82,179
		RMB	RMB
Earnings per share – Basic	13	**0.16**	0.15

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**149,236**	89,512
Prepaid lease payments	16	**19,323**	20,148
Intangible asset	17	**6,186**	2,723
Deferred tax assets	18	**5,150**	2,889
		179,895	115,272
Current assets			
Inventories	19	**46,209**	43,557
Trade and other receivables	20	**97,488**	69,340
Amounts due from related parties	21	**–**	37,485
Prepaid lease payments	16	**423**	432
Bank balances and cash	22	**698,766**	58,394
		842,886	209,208
Land use rights classified as held for sale	16	**–**	14,988
		842,886	224,196
Current liabilities			
Trade and other payables	23	**49,202**	36,711
Amounts due to related parties	24	**200**	9,377
Amount due to a shareholder	25	**–**	52,713
Tax liabilities		**8,980**	3,199
Deferred income	26	**1,431**	–
		59,813	102,000
Net current assets		**783,073**	122,196
Total assets less current liabilities		**962,968**	237,468
Non-current liabilities			
Deferred tax liabilities	18	**4,118**	1,375
Deferred income	26	**5,471**	–
		9,589	1,375
Net assets		**953,379**	236,093

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	27	**68,141**	20
Reserves	28	**885,238**	236,073
Total equity attributable to owners of the Company		**953,379**	236,093

The consolidated financial statements on pages 42 to 92 were approved and authorised for issue by the board of directors on 25 March 2011 and are signed on its behalf by:

Qian Fu Qing
DIRECTOR

Cai Yong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2009	20	–	2,443	14,731	133,762	150,956
Profit for the year and total comprehensive income for the year	–	–	–	–	82,179	82,179
Capital contributed into Old Shanghai Trading Entities (note a)	–	–	800	–	–	800
Deemed distribution to the controlling shareholder upon the Transfer (note a)	–	–	(3,243)	–	2,477	(766)
Gain on disposal of a subsidiary to a company wholly owned by Mr. Qian (note b)	–	–	2,370	–	–	2,370
Gain on disposal of an associate to Mr. Qian	–	–	554	–	–	554
Appropriation of statutory surplus reserve	–	–	–	7,797	(7,797)	–
At 31 December 2009	20	–	2,924	22,528	210,621	236,093
Profit for the year and total comprehensive income for the year	–	–	–	–	106,259	106,259
Issue of shares pursuant to the Group Reorganisation (note c)	49,480	118,592	(168,072)	–	–	–
Dividend (note d)	–	–	–	–	(13,414)	(13,414)
Issuance of new shares	18,641	632,014	–	–	–	650,655
Cost of issue of new shares	–	(26,214)	–	–	–	(26,214)
Appropriation of statutory surplus reserve	–	–	–	13,639	(13,639)	–
At 31 December 2010	68,141	724,392	(165,148)	36,167	289,827	953,379

Notes:

(a) The trading of orthopaedic implants and medical instruments in Shanghai city (collectively referred to as the "Shanghai Trading Business") was carried out by three entities (collectively referred to as the "Old Shanghai Trading Entities") until the end of October 2009. These entities were established in the People's Republic of China with limited liability and were controlled by Ms. Xu Yan Hua ("Ms. Xu"), the controlling shareholder of the Group. Since November 2009, Trauson (Jiangsu) Medical Instrument Company Limited 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"). The Shanghai Trading Business has been under the common control of Ms. Xu since the commencement of Shanghai Trading Business, for the purpose of these consolidated financial statements. The Company ceased to consolidate the assets, liabilities, results and cash flows of the Shanghai Trading Business on the date of the Transfer. All of the relevant assets and liabilities of the Shanghai Trading Business on the date of the Transfer were retained by the Old Shanghai Trading Entities and was accounted for as deemed distribution by the Group to Ms. Xu.

(b) Mr. Qian Fu Qing ("Mr. Qian") is the spouse of Ms. Xu.

(c) On 10 March 2010, the Company allotted and issued 562,499,999 new ordinary shares to acquire the entire issued share capital of Trauson (Hong Kong) Company Limited ("Trauson Hong Kong") and Orthmed (Hong Kong) Medical Instrument Company Limited ("Orthmed Hong Kong") from Ms. Xu. The aggregated equity of Trauson Hong Kong and Orthmed Hong Kong on that date amounted to approximately RMB168,092,000 and resulted in share premium of approximately RMB118,592,000.

(d) Prior to the completion of the Group Reorganisation (as defined in note 1 to the consolidated financial statements), Trauson Hong Kong declared dividends of US$196 per share amounted to US$1,960,000 (equivalent to approximately RMB13,414,000) in aggregate to its then sole shareholder, Ms. Xu on 8 March 2010.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before tax	**129,584**	94,061
Adjustments for:		
Depreciation of property, plant and equipment	**10,598**	9,967
(Reversal of) write-down of inventories	**(3,400)**	408
Interest expenses	**325**	846
Impairment losses on trade and other receivables	**1,310**	616
Release of prepared lease payments on land use rights	**834**	589
(Gain) loss on disposal of property, plant and equipment	**(111)**	15
Interest income	**(5,948)**	(876)
Share of loss of an associate	**-**	322
Fair value change of held for trading investments	**-**	(14)
Operating cash flows before movements in working capital	**133,192**	105,934
Decrease (increase) in inventories	**748**	(341)
Increase in trade and other receivables	**(27,869)**	(18,986)
Decrease in held for trading investments	**-**	26
Increase in trade and other payables	**4,147**	2,656
Decrease in amounts due from related parties	**-**	584
(Decrease) increase in amounts due to related parties	**(592)**	391
Increase in deferred income	**2,339**	–
Net cash generated from operations	**111,965**	90,264
PRC income tax paid	**(17,062)**	(11,678)
Net cash from operating activities	**94,903**	78,586
Investing activities		
Proceeds from disposals of property, plant and equipment	**1,214**	298
Interest received	**4,359**	1,268
Proceeds from disposal of an associate	**-**	11,000
Proceeds from disposal of land use rights	**14,988**	–
Payments for acquisition of property, plant and equipment	**(63,081)**	(22,000)
Repayment from a shareholder	**-**	440
Repayment from (advance to) related parties	**9,706**	(13,891)
Payments for land use rights	**-**	(22,289)
Development costs paid and capitalised	**(3,463)**	(2,723)
Government grants received	**4,563**	–
Net cash used in investing activities	**(31,714)**	(47,897)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Financing activities		
Short-term bank loans raised	**30,000**	70,000
Repayment of short-term bank loans	**(30,000)**	(80,000)
Repayment to a shareholder	**(33,519)**	(86)
Advance from related parties	**-**	8,647
Proceeds from issue of shares	**650,655**	–
Payment for expenses on issue of shares	**(26,214)**	–
Dividend paid	**(13,414)**	–
Interest paid	**(325)**	(846)
Proceeds from capital contributed to Old Shanghai Trading Entities	**-**	800
Cash and cash equivalents transferred to Old Shanghai Trading Entities	**-**	(274)
Net cash from (used in) financing activities	**577,183**	(1,759)
Net increase in cash and cash equivalents	**640,372**	28,930
Cash and cash equivalents at beginning of the year	**58,394**	29,464
Cash and cash equivalents at end of the year, represented by		
Bank balances and cash	**698,766**	58,394

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 27 January 2010. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 29 June 2010. The immediate and ultimate holding company is Luna Group Holdings Limited ("Luna Group"), a company incorporated in the British Virgin Islands ("BVI") wholly owned by Ms. Xu Yan Hua ("Ms. Xu"). The addresses of registered office and the principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

The Company is an investment holding company and the principal activities of its subsidiaries are disclosed in note 34.

The consolidated financial statements are 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).

The Group Reorganisation

In order to streamline the structure of the Group in preparation of the listing of the shares of the Company on the Main Board of the Stock Exchange, the Group underwent a group reorganisation (the "Group Reorganisation").

On 27 January 2010, Trauson Holdings (BVI) Company Limited ("Trauson Holdings BVI") was incorporated in the BVI as a wholly owned subsidiary of the Company.

On 7 February 2010, Trauson Holdings BVI acquired the entire issued share capital of Trauson Holdings (Hong Kong) Company Limited ("Trauson Holdings HK") from Ms. Xu at a consideration of HK$10,000.

On 10 March 2010, the Company, through Trauson Holdings HK, acquired the entire issued share capital of Trauson (Hong Kong) Company Limited ("Trauson Hong Kong") and Orthmed (Hong Kong) Medical Instrument Company Limited ("Orthmed Hong Kong") from Ms. Xu. In consideration for the acquisition, the Company allotted and issued 562,499,999 new ordinary shares credited as fully paid to Luna Group. Trauson Hong Kong and Orthmed Hong Kong are both the holding companies of the Company's operating subsidiaries in the People's Republic of China (the "PRC").

Upon completion of the Group Reorganisation, the Company became the holding company of its subsidiaries on 10 March 2010. Details of the Group Reorganisation are set out in the section headed "History and Development – Reorganisation" in the prospectus of the Company dated 15 June 2010.

The Group resulting from the Group Reorganisation is regarded as a continuing entity in accordance with principles of merger accounting for business combination under common control as set out in note 3.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The adoption of the new and revised HKFRSs in current year had no material effect on the consolidated financial statements.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, Hong Kong Accounting Standard ("HKAS") 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of the amendments to HKAS 17 does not affect the classification of the Group's leasehold land.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[7]
HKFRS 9	Financial Instruments[5]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 February 2010.
[3] Effective for annual periods beginning on or after 1 July 2010.
[4] Effective for annual periods beginning on or after 1 January 2011.
[5] Effective for annual periods beginning on or after 1 January 2013.
[6] Effective for annual periods beginning on or after 1 January 2012.
[7] Effective for annual periods beginning on or after 1 July 2011.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013. Based on the Group's financial assets and financial liabilities as at 31 December 2010, the application of the new standard is not expected to have significant impact to the Group's consolidated financial statements.

The directors of the Company anticipate that the application of other new and revised Standards, Amendments or Interpretations in the respective financial years when they become effective, will have no material impact on amounts reported in the consolidated financial statements of the Group and/or disclosures therein.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 consolidated 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 statements 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 consolidation.

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, consolidated financial statements incorporate 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, to the extent of the continuation of the controlling party's interest.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Merger accounting for business combinations under common control – continued

The consolidated 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 common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

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 the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 discounts and 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 consolidated 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 or services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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 value, 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 statement of comprehensive income in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Leasehold land

The Group assesses the classification of leasehold land as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of leasehold land has been transferred to the Group.

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position, and is amortised over the lease term on a straight-line basis.

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 year 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants received in advance are recognised as deferred income in the consolidated statement of financial position and recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants which are intended to subsidise the purchase, construction or otherwise acquisition of non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong are charged as expenses 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 consolidated statement of comprehensive 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally 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 of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 (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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 in the consolidated statement 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 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 as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 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.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties 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).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Impairment of financial assets

Financial assets 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 and other 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, an 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 loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments

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 and amounts due to related parties and a shareholder are subsequently measured at amortised cost, using effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at 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 in its entirety, 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 next 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 2010, the carrying amounts of trade receivables were approximately RMB84,787,000 (2009: RMB53,170,000).

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. 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 such inventories in that period. For the year ended 31 December 2010, write-down of inventories amounted to approximately RMB316,000 (2009: RMB408,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

Impairment of intangible assets

Note 3 describes that, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

The Group reviewed the carrying amounts of its intangible asset at 31 December 2010 to determine whether the asset has suffered an impairment loss. The Group evaluated its development projects (at development phase as at 31 December 2010), and the directors of the Company consider those development projects meet the recognition criteria of internally-generated intangible assets, as set out in note 3, and no impairment was noted as at 31 December 2010.

Impairment of property, plant and equipment

Note 3 describes that, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss at the end of the reporting period. 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.

The Group reviewed the carrying amounts of certain buildings at 31 December 2010 to determine whether those assets have suffered an impairment loss. The estimation of those buildings' recoverable amounts was based on their fair values less the costs of disposal.

5. 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 shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings, as disclosed in the consolidated financial statements.

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.

6. FINANCIAL INSTRUMENTS

6A. Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**787,337**	151,247
Financial liabilities		
Amortised cost	**33,952**	80,627

6B. Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, trade and other payables, amounts due to related parties and a shareholder, 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

The primary economic environment which most of the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, certain cash and cash equivalents and sales and purchases of the Group are denominated in Hong Kong Dollars ("HK$") and United States Dollars ("US$"), 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 reporting date are as follows:

	Assets		Liabilities	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
US$	**25,714**	7,826	**246**	1,198
HK$	**576,038**	27,912	**–**	61,293

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.

6. FINANCIAL INSTRUMENTS – continued

6B. Financial risk management objectives and polices – continued

Foreign currency risk – continued

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) change in US$ and HK$ against RMB. 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 year 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 currencies against RMB, there would be an equal and opposite impact on the profit for the year.

	2010	2009
	RMB'000	RMB'000
US$ impact	**1,069**	290
HK$ impact	**24,193**	(1,446)

The sensitivity analysis above only analysed the Group's year end inherent foreign exchange risk exposure and does not represent the exposure during the year as the value of the monetary items and the exchange rates fluctuate during the year.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable-rate bank deposits. Currently, the Group does not have a specific policy to manage its interest rate risk, but will closely monitor the interest rate risk exposure in the future.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank deposits. The analysis is prepared assuming the bank deposits at the end of the reporting period were available for the whole year. A 100 basis point (2009: 50 basis points) increase represents management's assessment of the reasonably possible change in interest rates. The management adjusted the sensitivity rate from 50 basis points to 100 basis points for assessing interest rate risk after considering the impact of the upwards moving trend of interest rates in 2010.

If interest rates had been 100 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would increased by approximately RMB5,870,000 (2009: RMB255,000).

6. FINANCIAL INSTRUMENTS – continued

6B. Financial risk management objectives and polices – continued

Credit risk

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 consolidated statement 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. At 31 December 2010, approximately 87% (2009: 92%) of the bank balances were deposited at two (2009: two) banks. The credit risk of 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.

At 31 December 2009, the Group had concentration of credit risk in respect of amounts due from related parties. In order to minimise the credit risk of amounts due from related parties, the management of the Group continuously monitored the credit quality and financial conditions of the related parties and the level of exposure to ensure that follow-up action was taken to recover overdue debts. In addition, the management of the Group reviewed the recoverable amount of each individual advance balance at 31 December 2009 to ensure adequate impairment losses were 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 and abroad. In order to minimise the credit risk, the management of the Group continuously monitors 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.

6. FINANCIAL INSTRUMENTS – continued

6B. Financial risk management objectives and polices – continued

Liquidity risk

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 at which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	On demand or less than six month, representing total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000
At 31 December 2010			
Trade and other payables	–	33,752	33,752
Amounts due to related parties	–	200	200
		33,952	33,952
At 31 December 2009			
Trade and other payables	–	18,537	18,537
Amounts due to related parties	–	9,377	9,377
Amount due to a shareholder	–	52,713	52,713
		80,627	80,627

6C. Fair values

The fair values of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. 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 operating and 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 of orthopaedic products in accordance with customers' orders and specifications
(d)	Others	Medical instrument and other components

7. REVENUE AND SEGMENT INFORMATION – continued

The following is an analysis of the Group's revenue and results by operating and reportable segment:

	2010 RMB'000	2009 RMB'000
Segment revenue		
Trauma products	**183,626**	135,417
Spine products	**34,274**	31,366
OEM products	**57,804**	31,418
Others	**15,038**	13,284
Total revenue	**290,742**	211,485
Segment profit		
Trauma products	**149,766**	99,630
Spine products	**28,053**	25,658
OEM products	**32,191**	15,343
Others	**1,354**	8,592
Total segment profit	**211,364**	149,223
Unallocated income and other gains and losses	**(2,311)**	1,094
Unallocated expenses:		
Distribution and selling expenses	**(17,896)**	(21,431)
Administrative and general expenses	**(36,725)**	(21,411)
Research and development expenses	**(10,617)**	(9,710)
Other expenses	**(13,906)**	(2,536)
Interest expense in relation to bank loans wholly repayable within five years	**(325)**	(846)
Share of loss of an associate	**-**	(322)
Profit before tax	**129,584**	94,061
Income tax expense	**(23,325)**	(11,882)
Profit for the year and total comprehensive income for the year	**106,259**	82,179

7. REVENUE AND SEGMENT INFORMATION – continued

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the reporting period.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies as set out in note 3. Segment profit represents the gross profit earned by each segment. This is the measure reported to the chief operating decision maker 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 relevant 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 the major customer

Revenue from the major customer which accounts for 10% or more of the Group's revenue are as follows:

	2010	2009
	RMB'000	RMB'000
Customer A in OEM products segment	**57,804**	31,418

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	2010 RMB'000	2009 RMB'000
Government grants (Note)	8,054	–
Interest income	5,948	876
Gain (loss) on disposal of property, plant and equipment	111	(15)
Net foreign exchange loss	(16,557)	(31)
Fair value change of held for trading investments	-	14
Others	133	250
	(2,311)	1,094

Note: The government grants are mainly awards for successful listing of the Company's shares on the Stock Exchange and the Group's contributions towards domestic businesses and economy in Changzhou city, the PRC.

9. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Legal and professional fees (Note)	13,685	2,359
Donation	205	4
Others	16	173
	13,906	2,536

Note: The amount mainly represented the legal, professional and related expenses incurred for the listing of the shares of the Company on the Main Board of the Stock Exchange.

10. PROFIT BEFORE TAX

	2010 RMB'000	2009 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration (note 11)	**4,197**	2,721
Staff costs	**54,918**	36,185
Employees' retirement benefit schemes contributions	**3,359**	2,840
Total staff costs	**62,474**	41,746
Cost of inventories recognised as expense	**79,378**	62,262
Depreciation of property, plant and equipment	**10,598**	9,967
Auditor's remuneration	**2,100**	163
Impairment losses on trade receivables	**1,175**	616
Impairment losses on other receivables	**135**	–
Release of prepaid lease payments	**834**	589
Write-down of inventories (Note)	**316**	408
Reversal of write-down of inventories (Note)	**(3,716)**	-
Operating lease rentals in respect of rented premises	**-**	696

Note: Included in cost of inventories recognised as expense represented the write-down of and reversal of write-down of inventories. The latter was due to the increase in net realisable values of inventory items written-down in prior years above their historical costs in current year.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the directors of the Company were as follows:

	2010 RMB'000	2009 RMB'000
Directors' emoluments:		
– salaries and other benefits	**4,190**	2,711
– retirement benefit schemes contributions	**7**	10
	4,197	2,721

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

	Salaries and other benefits	Retirement benefit schemes contributions	Total
	RMB'000	RMB'000	RMB'000
2010:			
Mr. Qian Fu Qing	**1,447**	**–**	**1,447**
Ms. Xu Yan Hua	**575**	**–**	**575**
Mr. Cai Yong	**617**	**3**	**620**
Ms. Ren Feng Mei	**835**	**4**	**839**
Mr. Chan Yuk Tong (appointed on 10 June 2010)	**172**	**–**	**172**
Dr. Lu Bing Heng (appointed on 10 June 2010)	**172**	**–**	**172**
Mr. Zhao Zi Lin (appointed on 10 June 2010)	**172**	**–**	**172**
Mr. Ng Ming Chee James (appointed on 24 August 2010)	**200**	**–**	**200**
	4,190	**7**	**4,197**
2009:			
Mr. Qian Fu Qing	1,056	–	1,056
Ms. Xu Yan Hua	406	4	410
Mr. Cai Yong	549	6	555
Ms. Ren Feng Mei	700	–	700
	2,711	10	2,721

Of the five individuals with highest emoluments in the Group, two (2009: two) were directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2009: three) individuals were as follows:

	2010	2009
	RMB'000	RMB'000
Employees		
– salaries and other benefits	**4,305**	2,833
– retirement benefit schemes contributions	**38**	33
	4,343	2,866

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Their emoluments were within the following bands:

	2010 No. of employees	2009 No. of employees
HK$nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–

During the year ended 31 December 2010 and 2009, 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 year ended 31 December 2010 and 2009.

12. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC enterprise income tax ("EIT")	**20,343**	8,777
Withholding tax on PRC dividends paid	**2,500**	3,405
Deferred tax charge (credit):		
Current year (note 18)	**482**	(300)
	23,325	11,882

No provision for Hong Kong Profits Tax has been made as the Group's subsidiaries in Hong Kong had no assessable profits.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

12. INCOME TAX EXPENSE – continued

Trauson (Jiangsu) Medical Instrument Company Limited ("Trauson Jiangsu" which has been renamed as Trauson Medical Instrument (China) Company Limited with effect from 23 March 2011) and Changzhou Orthmed Medical Instrument Company Limited ("Changzhou Orthmed"), being both foreign investment enterprises registered in Changzhou city, Jiangsu province 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 ended 31 December 2010. Changzhou Orthmed 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.

The tax charge for the year can be reconciled to profit before tax as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	**129,584**	94,061
Tax at the PRC income tax rate of 25%	**32,396**	23,515
Tax effect of share of loss of an associate	**–**	81
Tax effect of income not taxable for tax purpose	**(566)**	–
Tax effect of expenses not deductible for tax purpose	**7,288**	464
Tax effect of tax losses not recognised	**248**	757
Effect of tax reduction on allowable research and development expenditure	**(1,088)**	(576)
Effect of tax exemptions granted to PRC subsidiaries	**(20,937)**	(15,488)
Differential tax rate on temporary differences	**613**	(144)
Differential tax rate of subsidiaries operating in other jurisdictions	**128**	–
Withholding tax on PRC dividends paid	**1,169**	–
Withholding tax on undistributed profits of PRC subsidiaries	**4,074**	3,273
Taxation for the year	**23,325**	11,882

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following:

	2010	2009
Profit		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	**106,259**	82,179
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**669,159,593**	562,500,000

The number of shares for the purpose of basic earnings per share has been determined on the assumption that the ordinary shares of the Company issued upon the Group Reorganisation have been in issue on 1 January 2009 and taking into account of weighted average number of new ordinary shares issued:

(a) On 28 June 2010 pursuant to the Company's initial public offering; and

(b) On 26 July 2010 pursuant to the partial exercise of the over-allotment option as referred to in the prospectus of the Company dated 15 June 2010.

The Group has no potential ordinary shares throughout the year ended 31 December 2010 and 2009.

14. DIVIDENDS

The final dividend of RMB3.57 cents per share in respect of the year ended 31 December 2010 (2009: nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in general meeting.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2009	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	32,482	54,075	10,106	6,795	15,897	119,355
Additions	9,198	5,564	3,724	5,157	47,782	71,425
Disposals	–	(970)	–	(1,926)	–	(2,896)
Transfers	63,679	–	–	–	(63,679)	–
At 31 December 2010	105,359	58,669	13,830	10,026	–	187,884
DEPRECIATION						
At 1 January 2009	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 the Old Shanghai Trading Entities	–	–	(284)	(334)	–	(618)
At 31 December 2009	6,496	15,340	5,107	2,900	–	29,843
Provided for the year	2,518	5,078	1,690	1,312	–	10,598
Eliminated on disposals	–	(280)	–	(1,513)	–	(1,793)
At 31 December 2010	9,014	20,138	6,797	2,699	–	38,648
CARRYING VALUES						
At 31 December 2010	96,345	38,531	7,033	7,327	–	149,236
At 31 December 2009	25,986	38,735	4,999	3,895	15,897	89,512

15. PROPERTY, PLANT AND EQUIPMENT – continued

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%

16. PREPAID LEASE PAYMENTS

	2010	2009
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**423**	432
Non-current assets	**19,323**	20,148
	19,746	20,580

The land use rights are related to land in the PRC under medium-term lease.

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. The land use rights were classified as held for sale as at 31 December 2009. The land use rights were disposed on 9 April 2010 at RMB14,988,000.

17. INTANGIBLE ASSET

	Development costs RMB'000
COST AND CARRYING VALUE	
At 1 January 2009	–
Additions	2,723
At 31 December 2009	2,723
Additions	3,463
At 31 December 2010	6,186

Development costs are internally generated. The Group commenced the development of certain new joint products and the corresponding development costs have been recognised as an intangible asset. The development costs will be amortised over their estimated useful lives upon completion of development activities and when the new products are available for sale in normal course of business.

18. DEFERRED TAXATION

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	**5,150**	2,889
Deferred tax liabilities	**(4,118)**	(1,375)
	1,032	1,514

18. DEFERRED TAXATION – continued

The following are the major deferred tax assets and (liabilities) recognised and movements thereon during the current and prior years:

	Write-down of inventories RMB'000	Deferred income RMB'000	Other provisions RMB'000	Withholding tax on undistributed profits RMB'000	Total RMB'000
At 1 January 2009	2,204	–	517	(1,507)	1,214
Reversal upon payment of withholding tax	–	–	–	3,405	3,405
Credit (charge) to consolidated statement of comprehensive income for the year	52	–	116	(3,273)	(3,105)
At 31 December 2009	2,256	–	633	(1,375)	1,514
Reversal upon payment of withholding tax	–	–	–	1,331	1,331
Credit (charge) to consolidated statement of comprehensive income for the year	(235)	825	1,671	(4,074)	(1,813)
At 31 December 2010	2,021	825	2,304	(4,118)	1,032

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Other than the PRC withholding income tax provided as above, no deferred taxation has been provided for the retained profits of approximately RMB35 million (2009: nil), which were derived from the PRC subsidiaries since 1 January 2008 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,500,000 (2009: nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

As at the end of the reporting period, the Group had no other significant unprovided deferred taxation.

19. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**11,535**	14,539
Work-in-progress	**14,179**	15,517
Finished goods	**20,495**	13,501
	46,209	43,557

20. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**88,081**	55,289
Less: allowance for doubtful debts	**(3,294)**	(2,119)
	84,787	53,170
Advance to suppliers	**6,134**	12,240
Other receivables	**3,784**	2,324
Deposits	**1,935**	1,433
Prepaid expenses	**848**	173
	97,488	69,340

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:

	2010 RMB'000	2009 RMB'000
0 to 90 days	**66,816**	39,460
91 to 180 days	**12,005**	6,871
181 to 360 days	**5,145**	5,294
Over 360 days	**821**	1,545
	84,787	53,170

20. TRADE AND OTHER RECEIVABLES – continued

At 31 December 2010, included in the Group's trade receivables are debtors with a carrying amount of RMB37,059,000 (2009: RMB13,710,000), 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 the credit periods granted by the Group based on the invoice date at the end of the reporting period, and their ageing analysis are set out in the preceding table.

Movements in the allowance for doubtful debts for the year ended 31 December 2010:

	2010	2009
	RMB'000	RMB'000
At beginning of the year	**2,119**	1,503
Impairment losses recognised on trade receivables	**1,175**	616
At end of the year	**3,294**	2,119

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 of the Company 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 into RMB and stated for reporting purposes as:

	2010	2009
	RMB'000	RMB'000
Trade receivables denominated in US$	**22,218**	6,542

21. AMOUNTS DUE FROM RELATED PARTIES

	2010 RMB'000	2009 RMB'000
Non-trading in nature		
Jiangsu Duoliang Venture Investment Co., Ltd. ("Duoliang Investment") (Note a)	-	9,706
Fully Creation Investment Limited ("Fully Creation") (Note b)	-	27,779
	-	37,485

	Maximum amount outstanding	
	2010 RMB'000	2009 RMB'000
Duoliang Investment	9,706	9,706
Mr. Qian Fu Qing	614	11,000
Fully Creation	27,779	27,779

Notes:

(a) Duoliang Investment was an associated company of Trauson Jiangsu. As part of the Group Reorganisation, the Group disposed of its interest in Duoliang Investment to Mr. Qian Fu Qing in September 2009. The advances to Duoliang Investment were unsecured, interest-free and repayable on demand.

(b) Fully Creation is wholly owned by Mr. Qian Fu Qing. The balance at 31 December 2009 represented advances provided and the aggregate consideration receivable in respect of disposal of a subsidiary in December 2009. The balance was unsecured, non-interest bearing and repayable on demand, which was denominated in HK$, foreign currency of the relevant group entities.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carried interest at market rates ranging from 0.01% to 3.00% per annum (2009: 0.10% to 1.71% per annum).

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:

	2010 RMB'000	2009 RMB'000
Denominated in:		
US$	**3,496**	1,247
HK$	**576,038**	108

Certain bank balances and cash of the Group of approximately RMB119,232,000 (2009: RMB57,039,000) 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.

23. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**12,169**	8,900
Advance from customers	**4,158**	7,090
Payroll payables	**13,676**	8,612
Accrued expenses	**7,444**	7,248
Other tax liabilities	**3,848**	3,836
Other payables	**7,907**	1,025
	49,202	36,711

23. TRADE AND OTHER PAYABLES – continued

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:

	2010	2009
	RMB'000	RMB'000
0 to 90 days	**11,316**	8,237
91 to 180 days	**396**	142
181 to 360 days	**303**	401
Over 360 days	**154**	120
	12,169	8,900

The Group's trade payables that were denominated in US$, foreign currency of the relevant group entities, were re-translated into RMB and stated for reporting purposes as:

	2010	2009
	RMB'000	RMB'000
Trade payables denominated in US$	**198**	662

24. AMOUNTS DUE TO RELATED PARTIES

	2010	2009
	RMB'000	RMB'000
Trading in nature		
Changzhou Cofey Refrigeration Equipment Co., Ltd. ("Changzhou Cofey") (Note a)	**152**	184
Biorth Incorporation ("Biorth") (Note b)	**48**	25
Metro Enterprises Corporation ("Metro Enterprises") (Note c)	**–**	583
	200	792
Non-trading in nature		
Plusrite Electric (Jiangsu) Co., Ltd. ("Plusrite Jiangsu") (Note d)	**–**	8,585
	200	9,377

24. AMOUNTS DUE TO RELATED PARTIES – continued

Notes:

(a) Changzhou Cofey is beneficially owned by Ms. Xu Yan Hua's brother.

(b) Biorth is wholly owned by Mr. Qian Song, son of Mr. Qian Fu Qing and Ms. Xu Yan Hua.

(c) Metro Enterprises is wholly owned by Mr. Qian Xiao Jin, son of Mr. Qian Fu Qing and Ms. Xu Yan Hua.

(d) Plusrite Jiangsu is wholly owned by Ms. Xu Yan Hua. The balance at 31 December 2009 represented non-trading advances received which was unsecured, interest-free and repayable on demand.

The ageing analysis of the amounts due to related parties which are trading in nature is as follows:

	2010	2009
	RMB'000	RMB'000
0 to 90 days	**200**	265
181 to 360 days	**–**	527
	200	792

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 into RMB and stated for reporting purpose as:

	2010	2009
	RMB'000	RMB'000
Amounts due to related parties denominated in US$	**48**	608

25. AMOUNT DUE TO A SHAREHOLDER

	2010	2009
	RMB'000	RMB'000
Ms. Xu Yan Hua	**-**	52,713

The amount due to a shareholder at 31 December 2009 represented loan provided by the shareholder for investment as capital injection in the PRC subsidiaries. The amount was unsecured, non-interest bearing, repayable on demand and was denominated in HK$, foreign currency of the relevant group entities.

26. DEFERRED INCOME

Deferred income mainly represents government grants received in respect of research and development projects of the Group, and construction or acquisition of non-current assets. The government grants are recognised as deferred income upon receipt. Government grants in respect of research and development projects will be recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related research and development expenditure for which the grants are intended to compensate. Government grants in respect of construction or acquisition of non-current assets will be recognised in profit or loss on a systematic basis over the useful lives of the related assets.

27. SHARE CAPITAL

	Number of shares	**Amounts**
		HKD'000
Ordinary shares of HK$0.10 each:		
Authorised		
At date of incorporation and at 31 December 2010	100,000,000,000	10,000,000
Issued and fully paid		
At date of incorporation	1	–
Issue of new shares pursuant to the Group Reorganisation	562,499,999	56,250
Issue of new shares pursuant to the initial public offering	187,500,000	18,750
Issue of new shares pursuant to the partial exercise of the over-allotment option	24,328,625	2,433
At 31 December 2010	774,328,625	77,433

27. SHARE CAPITAL – continued

	RMB'000
Shown in the consolidated statement of financial position:	
At 31 December 2010	68,141
At 31 December 2009	20

On 27 January 2010, the date of incorporation of the Company, one ordinary share was allotted and issued to the then sole subscriber at par.

On 10 March 2010, the Company issued 562,499,999 new ordinary shares to the then existing shareholder pursuant to the Group Reorganisation in exchange for the entire equity interest in Trauson Hong Kong and Orthmed Hong Kong.

On 28 June 2010, the Company issued 187,500,000 new ordinary shares pursuant to the Company's initial public offering at a price of HK$3.52 per share.

On 26 July 2010, the Company allotted and issued 24,328,625 new ordinary shares pursuant to the partial exercise of the over-allotment option as referred to in the prospectus of the Company dated 15 June 2010 at a price of HK$3.52 per share.

The new shares allotted and issued rank pari passu in all respect with other shares in issue.

The share capital at 31 December 2009 represented 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 that date.

28. RESERVES

Special reserve

Special reserve mainly represents amounts arising on the Group Reorganisation as set out in note 1.

Statutory surplus reserve

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 applicable PRC accounting standards 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 the owners, convert their surplus reserves into capital in proportion to their then existing capital contribution. However, when converting the PRC subsidiaries' statutory surplus reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of their registered capital.

29. CONTINGENT LIABILITIES

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 2010, such claims amounted to approximately RMB2 million (2009: RMB2 million), 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 2010.

After seeking legal opinion and taking into account the facts that (i) for cases that were settled in prior years, 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 two cases 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 for any potential liability has been made in the consolidated financial statements.

30. COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	-	3,109

31. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the rules of the MPF Scheme, the employer and employees are each required to make contributions to the scheme at specified rate. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the 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 specified rate of the employees' salaries 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.

The total cost charged to profit or loss of approximately RMB3,366,000 (2009: RMB2,850,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2010, contributions of approximately RMB3,182,000 (2009: RMB2,458,000) due in respect of current and prior accounting periods had not been paid over to the schemes.

32. NON-CASH TRANSACTIONS

During the year ended 31 December 2010, the Group entered into agreements with its related parties to restructure amounts due from/to related parties and a shareholder prior to the listing of the Company's shares on the Stock Exchange. According to these debts restructuring agreements, the related parties transferred their amounts due from/to the Group to a shareholder of the Company. The net balance of amount due to a shareholder amounting to approximately RMB33,519,000 was paid to a shareholder during the year.

33. RELATED PARTY TRANSACTIONS

During the year, other than those disclosed in notes 21, 24 and 25, the Group had the following significant transactions with related parties:

	2010 RMB'000	2009 RMB'000
Processing fee charge		
Changzhou Cofey	**1,023**	504
Interest income from loan		
Plusrite Jiangsu	–	420
Douliang Investment	–	356
Purchase of raw materials		
Metro Enterprises	–	5,949
Biorth	**268**	479
Purchase of property, plant and equipment		
Changzhou Cofey	**158**	–
Rental paid		
Ms. Xu Yan Hua	–	696
Sales of property, plant and equipment		
Plusrite Jiangsu	–	48

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**9,168**	6,448
Retirement benefit schemes contributions	**57**	54
	9,225	6,502

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable interest of the Group 2010	2009	Principal activities
Trauson Holdings (BVI) Company Limited (note)	British Virgins Islands 27 January 2010	US$1	**100%**	–	Investment holding
Trauson Holdings (Hong Kong) Company Limited (formerly known as Trauson Holdings Company Limited) 創生控股(香港)有限公司	Hong Kong 10 November 2008	HK$10,000	**100%**	100%	Investment holding
Trauson (Hong Kong) Company Limited 創生香港(發展)有限公司	Hong Kong 18 November 2005	HK$10,000	**100%**	100%	Investment holding
Orthmed (Hong Kong) Medical Instrument Company Limited 奧斯邁(香港)醫療器械有限公司	Hong Kong 18 October 2007	HK$10,000	**100%**	100%	Investment holding
Trauson Medical Instrument (China) Company Limited 創生醫療器械(中國)有限公司	PRC 18 September 2003 (wholly-foreign owned enterprise)	US$95,000,000	**100%**	100%	Research, design, manufacture and sales of orthopaedic implants and medical instruments
Changzhou Orthmed Medical Instrument Company Limited 常州奧斯邁醫療器械有限公司	PRC 4 December 2002 (wholly-foreign owned enterprise)	US$5,600,000	**100%**	100%	Research, design, manufacture and sales of orthopaedic implants and medical instruments
Shanghai Gongpin Trading Company Limited 公平(上海)醫療器械貿易有限公司	PRC 17 November 2010 (wholly-foreign owned enterprise)	US$500,000	**100%**	–	Inactive

Note: Directly set up and held by the Company

TRAUSON

Trauson Holdings Company Limited

創生控股有限公司