TRAUSON

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

2011年 annual report 報

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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 Company was founded by the chairman and chief executive officer, Mr Qian Fu Qing, in December 2002. The Group is one of the forerunners in China's orthopaedic industry.

As at 31 December 2011, the Group had over 110 products marketed under its own brands, "Trauson" and "Orthmed". The Group's extensive distribution network covered over 32 provinces and autonomous regions across China, supplying to more than 3,450 hospitals.

Embracing the philosophy of "professionalism, commitment 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 markets.

The Group has two principal and wholly-owned operating subsidiaries, Trauson (China) Medical Instrument Company Limited ("Trauson China") and Changzhou Orthmed Medical Instrument Company Limited ("Changzhou Orthmed"). As at 31 December 2011, the Group had three production facilities with an aggregate floor area of 107,100 square metres, and total assets of approximately RMB1,134 million.

Corporate Information

MEMBERS OF THE BOARD

Executive Directors

Mr Qian Fu Qing
Mr Cai Yong

Non-executive Director

Ms Xu Yan Hua

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

AUTHORISED REPRESENTATIVES

Mr Qian Fu Qing
Ms Ma Sau Kuen, Gloria

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong law:
Ashurst Hong Kong

as to PRC law:
King & Wood Mallesons

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
PRC

REGISTERED OFFICE

PO Box 309 Ugland House
Grand Cayman KY1-1104
Cayman Islands

Corporate Information

INVESTOR RELATIONS

Tel: (86) 519 8166 5319
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Bank of Communications Limited
China Construction Bank Corporation
China Minsheng Banking Corporation Limited
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
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Wanchai
Hong Kong

COMPANY'S WEBSITE

http://www.trauson.com

STOCK CODE

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Financial Summary

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**384,841**	290,742	211,485	173,692	131,582
Gross profit	**275,774**	211,364	149,223	114,853	77,581
Profit before tax	**181,885**	129,584	94,061	74,838	54,120
Profit attributable to owners of the Company	**141,114**	106,259	82,179	64,832	55,715

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**1,134,239**	1,022,781	339,468	255,954	179,813
Total liabilities	**(91,466)**	(69,402)	(103,375)	(104,998)	(93,689)
Net Assets	**1,042,773**	953,379	236,093	150,956	86,124

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Trauson Holdings, I am pleased to present the 2011 annual report of the Group to our shareholders.

The year 2011 marked the first full year for Trauson Holdings since its listing on the Main Board of the HKSE on 29 June 2010. The transition from a private enterprise to a publicly-listed company had been a challenging yet fulfilling journey and was a testament to the commitments and dedication of the management team and the employees of the Group.

Once again, Trauson Holdings achieved solid growth in both revenue and net profit for the year ended 31 December 2011. Revenue for the year reached approximately RMB384,841,000, representing a year-on-year increase of 32.37%; while profit attributable to owners of the Company for the year amounted to approximately RMB141,114,000, representing a year-on-year increase of 32.80%. These positive results reflected the efforts of the entire staff in the execution of the Group's business plans and growth strategies.

Given the continual effort by the Chinese government to expand health insurance coverage, together with other factors such as ageing population and patients' improving affordability, the Group maintains a positive outlook of the orthopaedic devices market in China. To take advantage of the favourable macro factors, the Group had more than doubled the size of its sales and marketing team and established regional offices in new geographical markets during 2011. The quality of the sales and marketing team was further enhanced during 2011 by recuiting more than 50 personnel with medical background, some of whom are former orthopaedic surgeons. In 2011, the Group added approximately 170 new distributors and expanded services to 460 new hospitals. As at 31 December 2011, the Group's distribution and sales network consisted of approximately 620 distributors covering approximately 3,450 hospitals. By positioning itself close to the local markets and possessing the required professional knowledge, the Group is well-equipped to continue to provide quality services to its end-user surgeons and distributors.

During 2011, the Group continued to strengthen its product portfolio through focused research and development and product innovation. 12 new products were launched during the year. Of particular significance was the launch of the brand-new Devine spine system in August 2011, as it represented the first domestically-made non-fusion spine system that could be used to treat all posterior spinal diseases. In addition, the Group has 7 spine products currently under development. Armed with a comprehensive and highly competitive spine product portfolio, Trauson Holdings believes that its sales in spine products will continue to deliver superior performance in the coming years.

The Group completed the relocation of the production lines for implants, including plates, screws and intramedullary nails, from the old plant to its new manufacturing facility during the first half of 2011. This represented a significant step taken by the Group to enhance its capacity and production efficiency.

Chairman's Statement

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

Month of Award	Award/Recognition
February 2011	Advanced Industrial Enterprise for 2010
February 2011	High-Growth Small and Medium Enterprise in Wujin District of Changzhou City for 2010
March 2011	Changzhou Top Ten Science and Technology Innovative Enterprise for 2010
March 2011	Changzhou Top Ten Foreign-investment Enterprise for 2010
May 2011	Outstanding Contribution Award for Public Listing
June 2011	Jiangsu Top Ten Outstanding Enterprise
August 2011	National Trustworthy Quality Enterprise for 2011
November 2011	China Top 100 Science and Technology Innovative, Small and Medium-sized Enterprise for 2011
December 2011	Jiangsu Top Ten Trustworthy Enterprise

Looking ahead, Trauson Holdings will continue to pursue growth through the introduction of quality products and geographical expansion. The Group also remains committed to continuously striving to improve its production efficiency as well as the standard of services delivered to end-user surgeons and distributors.

Finally, on behalf of the Board, I would like to thank the Directors and the employees of the Group for their efforts and dedications, and our shareholders and business partners for their support during the year.

Qian Fu Qing
Chairman and Chief Executive Officer

Hong Kong, 21 March 2012

Management Discussion and Analysis

1. INDUSTRY REVIEW

China's orthopaedic market continued to grow strongly during 2011, despite a slowdown of the global orthopaedic market resulting from weaker economic conditions worldwide. The major contributing factors for the growth of the orthopaedic market in China in recent years remained unabated during the year. Such factors include the expansion of health insurance coverage, improvement of patients' affordability, ageing population, increase in number of surgeons and hospitals with the capabilities of carrying out orthopaedic surgeries, as well as rising rates of co-morbidities such as osteoporosis and arthritis. These factors are expected to continue to drive sustainable growth of China's orthopaedic market in the foreseeable future.

Besides the above factors, increasing volume of domestic orthopaedic products compared to imported products is also a major driving force for industry development. Larger domestic companies nowadays possess product technologies that are very close to those of multinational companies, especially in trauma and spine products. Coupled with pricing advantage and favourable health insurance reimbursement policies, leading domestic companies are capturing an increasing market share in Tier 1 hospitals, the traditional stronghold of multinational companies, whilst also making it difficult for the latter to penetrate the fastest-growing Tier 2 and Tier 3 hospital segments. In January 2012, China's Ministry of Science and Technology released the "12th Five-Year Plan for the Medical Device Industry", which emphasized China's commitments in developing its domestic medical device industry in order to reduce the country's reliance on expensive imported medical devices. As such, Trauson Holdings believes that import substitution will continue to play an important role in driving the market share of domestic companies in China's orthopaedic industry.

The industry also saw new and tighter regulations introduced by the State Food and Drug Administration (the "SFDA") during 2011, most notably the mandatory requirement for the orthopaedic industry to meet GMP standards effective from 1 July 2011. Since China's orthopaedic industry is highly fragmented with a significant number of small and sub-standard companies, the tightening of the regulations would most likely create challenges for those companies to remain competitive, which may lead to more active industry consolidation activities over the next few years.

2. REVIEW OF EACH BUSINESS SEGMENT

a) Sales Analysis

Trauma products, spine products, OEM products and other products are the major products sold by the Group. During the period, revenue from trauma and spine products grew markedly by 33.00% and 75.93%, respectively, while revenue from other products also grew notably by 53.98%. Sales of OEM products however declined slightly by 1.11% due to the internal restructuring of the OEM customer and the depreciation of the US Dollar against RMB during the year. The overall growth in revenue for the year ended 31 December 2011 was 32.37% when compared to the corresponding period of 2010.

The sales for the year ended 31 December 2011 and the change compared to the corresponding period in 2010 are summarized as follows:

Type	**Sales amount**	**Change**
	RMB'000	
Trauma products	244,225	33.00%
Spine products	60,297	75.93%
OEM products	57,163	-1.11%
Others	23,156	53.98%
Total	384,841	32.37%

b) Production and Operation

The Group currently has three locations for its production facilities which are owned and operated by two wholly-owned operating enterprises, namely Trauson China and Changzhou Orthmed. The total production of the Group's major product types and their respective utilization rates for the year ended 31 December 2011 are as follows:

Product type	**Actual production volume**	**Utilization rate**
Plates	439,460 units	103%
Screws	2,556,007 units	88%
Intramedullary nails	54,489 units	105%
Cannulated screws	89,643 units	105%
Pedicle screws	178,703 units	115%
Surgical instruments	3,612 sets	82%

Management Discussion and Analysis

c) Research and Development:

For the year ended 31 December 2011, the Group completed the development of 12 new products, which had been approved by the SFDA.

Furthermore, as at 31 December 2011 the Group had 11 new products under research and development, details of which are set out in the following table:

Stages	**Spine products**	**Joint products**
Clinical trials	1	4
Clinical trials completed, at follow-up period	2	–
Follow-up period completed, ready to apply for registration	2	–
Application submitted, awaiting SFDA approval	2	–
Total	7	4

During the year 2011, the Group obtained 28 new patents. As at 31 December 2011, the Group owned 80 registered patents and had several patents pending for approval.

In order to further expand the product lines, to enhance the competitiveness of the products and to maintain its edge over industry peers, the Group spent an aggregate of approximately RMB15,763,000 on research and development during the year 2011, focusing mainly on developing new materials and products, as well as supporting clinical trials.

d) Market Coverage:

The Group believes that the key to achieving sustainable growth is by focusing on its customers and by anticipating and delivering on their needs through innovation. In order to obtain a deeper understanding of the needs of the end-user customers, the Group adopted an enhanced sales and marketing strategy in the beginning of 2011 by introducing an increased level of locally-based sales and marketing activities, including scheduled hospital visits, surgeons meetings and market research. To support these new initiatives, the Group expanded its sales and marketing team significantly during 2011 by recruiting more than 50 new sales personnel with medical background, including a number of former orthopaedic surgeons. The Group believes that the right team is now in place to communicate with end-user customers in an efficient and effective manner.

The Group continued to expand its market coverage by widening its distribution network and increasing its hospital penetration during the year. As at 31 December 2011, the Group's distribution and sales network in China consisted of approximately 620 distributors and 3,450 hospitals, compared to approximately 450 distributors and 3,000 hospitals as at the end of the previous year.

The domestic sales and marketing personnel of Trauson China and Changzhou Orthmed are divided into 6 regional teams and 4 regional teams, respectively. The contribution of each region to overall sales for 2011 is set out below:

	As % of total sales for 2011	
	Trauson China	**Changzhou Orthmed**
Eastern China	40.69%	39.63%
Southern China	15.79%	21.59%
Northern China	10.63%	27.67%
Northeastern China	12.00%	–
Southwestern China	10.85%	11.11%
Northwestern China	10.04%	–
Total	100%	100%

Besides domestic sales, the Group continued to develop distribution channels in international markets such as South America, Middle East, Eastern Europe and Southeast Asia. During 2011, export sales of the Group amounted to approximately RMB18,180,000, representing an increase of 16.72% as compared to the previous year and 4.72% of the Group's overall revenue. Furthermore, Trauson Holdings obtained regulatory approval to sell its own branded products directly to Thailand and Venezuela during the year. As at 31 December 2011, Trauson Holdings had obtained approval to export its own branded products directly to 17 countries.

3. PROSPECTS AND OUTLOOK OF THE COMPANY

Trauson Holdings believes that the long-term growth drivers underpinning the orthopaedic industry in China, such as ageing population, expanding health insurance coverage, patients' improving affordability, increasing number of orthopaedic surgeons and hospitals, would remain strong in the coming years. The Group therefore maintains a positive outlook of its development prospects and would continue to capitalise on these advantageous conditions with a view to bolstering its position as one of the leading players in the orthopaedic devices industry in China.

Geographical expansion will continue to be one of the main strategies of the Group to grow future sales beyond its traditional stronghold of economically developed coastal provinces. As the healthcare market in China's inland provinces is experiencing rapid growth, Trauson Holdings will further expand the size and depth of its regional sales and marketing teams in these markets. Since the inception of its enhanced sales and marketing strategy in the beginning of 2011, the Group's sales force is now represented by dedicated regional teams which comprise highly-qualified personnel, many of whom are former medical physicians or orthopaedic surgeons. By staying close to the local markets, these locally-based teams will be the key to expanding the Group's distribution network as well as penetrating into local hospitals. In addition, by possessing professional medical knowledge, they are well-equipped to enhance the Group's services to hospitals and surgeons and to obtain clinical feedback in an efficient manner.

Besides the foregoing, new product innovation and introduction is another major strategy of Trauson Holdings to stay ahead of its competitors. As such, Trauson Holdings continues to place great emphasis on developing new products to augment its existing product portfolio. As at 31 December 2011, the Group had 11 new products under research and development which consisted of 7 spine products and 4 joint products. The Group expects that several spine products will be approved by the SFDA in 2012. After a highly robust showing of spine product sales in 2011, Trauson Holdings anticipates that its spine product portfolio will be further enhanced when registration is obtained for all of these new spine products currently under development. Furthermore, Trauson Holdings is fully committed to the development of its own joint products, which is progressing well as planned. Trauson Holdings firmly believes that it is well-positioned to deliver long-term sustainable growth by offering its customers on-going innovative products with the right value proposition.

On the international front, Trauson Holdings believes that there are substantial opportunities for its products in emerging markets, including South America, Middle East, Eastern Europe and Southeast Asia. Trauson Holdings' products are highly competitive in these markets in terms of price and quality. As such, the Group will maintain its strategy of driving growth in international sales through expanding its network of quality overseas distributors and pursuing regulatory approvals to sell to new markets.

In addition to organic growth, Trauson Holdings will continue to look for strategic investment opportunities as a means to accelerate its pace of expansion and to maintain its competitive edge in China's orthopaedic device market. Therefore, the Group is continuously searching for suitable merger-and-acquisition targets and strategic collaboration partners, in both China and abroad. The Group's priority is to create additional value for its shareholders through these transactions, and therefore is prepared to invest the appropriate amount of time and resources throughout the process of identifying and evaluating potential investment opportunities. As the prevailing regulatory environment in China may generate industry consolidation opportunities over the next few years, Trauson Holdings is well-positioned to be at the forefront of taking advantage of such opportunities.

4. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group had 1,047 full-time employees (2010: 908 employees).

For the year ended 31 December 2011, the Group's total cost on remunerations, welfare and social security amounted to approximately RMB72,739,000 (2010: RMB58,277,000).

The remuneration structure of the Group is based on employee performance, local cost of living and prevailing conditions in the human resources market.

5. FINANCIAL REVIEW

Revenue

The revenue for the year ended 31 December 2011 increased by approximately RMB94,099,000 or 32.37% to RMB384,841,000 as compared with RMB290,742,000 for the year ended 31 December 2010. The increase was primarily attributable to the growth in sales of trauma and spine products.

Management Discussion and Analysis

The following table sets forth a breakdown of the Group's revenue by product category for the year ended 31 December 2011 and the corresponding period in 2010:

	For the year ended 31 December			
	2011		2010	
	Revenue	**Percentage**	Revenue	Percentage
	RMB'000	**%**	RMB'000	%
Trauma products	**244,225**	**63.46**	183,626	63.16
Spine products	**60,297**	**15.67**	34,274	11.79
OEM products	**57,163**	**14.85**	57,804	19.88
Others	**23,156**	**6.02**	15,038	5.17
Total	**384,841**	**100.00**	290,742	100.00

Revenue from trauma products increased by RMB60,599,000 or 33.00% to RMB244,225,000, accounting for 63.46% of total revenue in the year 2011. Revenue from trauma products as a percentage of the total revenue remained stable as compared with the corresponding period in 2010. The increase in revenue from trauma products was primarily due to the continued expansion of the distribution network of the Group.

Revenue from spine products increased by RMB26,023,000 or 75.93% to RMB60,297,000, accounting for 15.67% of the total revenue in the year 2011, as compared with RMB34,274,000 or 11.79% of the Group's total revenue for the year ended 31 December 2010. The increase in revenue from spine products was primarily due to the Group's adjustment in marketing strategy, the increase of orders placed by the Group's international customers as well as the continued expansion of the Group's distribution network.

Revenue from OEM products decreased by RMB641,000 or 1.11% to RMB57,163,000, accounting for 14.85% of the total revenue in the year 2011, as compared with RMB57,804,000 or 19.88% of the Group's total revenue for the year ended 31 December 2010. The decrease in revenue from OEM products was primarily due to the internal restructuring of the OEM customer and the depreciation of the US Dollar against RMB during the year.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

As a result of the above-mentioned factors, gross profit increased by approximately RMB64,410,000 or 30.47% to RMB275,774,000 for the year ended 31 December 2011, as compared to RMB211,364,000 for the same period in 2010.

Cost of sales increased by RMB29,689,000 or 37.40% to RMB109,067,000 for the year ended 31 December 2011, as compared to RMB79,378,000 for the year ended 31 December 2010. The gross profit margin decreased by 1.04 percentage points to 71.66% for the year ended 31 December 2011 as compared to 72.70% for the corresponding period in 2010, mainly due to the decrease in OEM products' gross profit margin.

Other Income and Other Gains and Losses

Other income and other gains and losses increased by approximately RMB16,890,000 to net gain of RMB14,579,000 for the year ended 31 December 2011, as compared to net loss of RMB2,311,000 for the same period in 2010, mainly due to the decrease of foreign exchange loss and the increase of interest income.

The table below sets forth a breakdown of other income and other gains and losses for the year ended 31 December 2011 and the corresponding period in 2010:

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest income	**19,895**	5,948
Government grants	**5,654**	8,054
(Loss) gain on disposal of property, plant and equipment	**(231)**	111
Net foreign exchange loss	**(11,145)**	(16,557)
Others	**406**	133
Total	**14,579**	(2,311)

Management Discussion and Analysis

Other Expenses

Other expenses decreased by RMB13,308,000 or 95.70% to RMB598,000 for the year ended 31 December 2011, as compared to RMB13,906,000 for the same period in 2010. The decrease in other expenses was primarily due to the fact that the Company incurred listing expenses of approximately RMB13,685,000 in 2010.

Distribution and Selling Expenses

Distribution and selling expenses increased by RMB9,017,000 or 50.39% to RMB26,913,000 for the year ended 31 December 2011, as compared to RMB17,896,000 for the corresponding period in 2010. This was primarily due to the expansion of the sales and marketing team as well as the increase in marketing activities.

Administrative and General Expenses

Administrative and general expenses increased by RMB28,469,000 or 77.52% to RMB65,194,000 for the year ended 31 December 2011, as compared to RMB36,725,000 for the year ended 31 December 2010. The increase was primarily due to the increase in headcount and recurring legal and professional fees since the Company was listed on the HKSE.

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 RMB5,146,000 or 48.47% to RMB15,763,000 for the year ended 31 December 2011, as compared to RMB10,617,000 for the corresponding period in 2010. The increase was primarily due to the fact that the Company had more products which entered into clinical trials during 2011.

Profit Before Tax

As a result of the above-mentioned factors, the Group's profit before tax increased by RMB52,301,000 or 40.36% to RMB181,885,000 for the year ended 31 December 2011, as compared to RMB129,584,000 for the corresponding period in 2010.

Income Tax Expense

Income tax expense increased by RMB17,446,000 or 74.80% to RMB40,771,000 for the year ended 31 December 2011, as compared to RMB23,325,000 for the corresponding period in 2010. The effective tax rate for the Group for the year ended 31 December 2011 and 2010 was 22.42% and 18.00%, respectively.

Net Current Assets

Net current assets amounted to RMB832,617,000 as at 31 December 2011 as compared with RMB783,073,000 as at 31 December 2010. The increased amount primarily reflected an increase in trade and other receivables of approximately RMB58,899,000.

Liquidity

The financial resources of the Group remained healthy due to the proceeds from listing as well as strong operating cash flow. Bank balances and cash held by the Group were RMB695,990,000 and RMB698,766,000 on 31 December 2011 and 31 December 2010, respectively.

Exchange Rate Risks and Counter Measures

Constrained by the regulatory control over conversion of foreign currencies for capital items, the Group's net foreign exchange loss due to appreciation of RMB was approximately RMB11,145,000 for the year ended 31 December 2011. 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.

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 31 December 2011, the Group has thus far utilised approximately RMB78,864,000 for expansion of production capacity, RMB21,864,000 for research and development and RMB19,800,000 for working capital and general corporate purposes. The unused proceeds are principally held as bank deposits in China and Hong Kong.

Corporate Governance Report

The Board 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 recommended best practices. The Company has complied with all the applicable code provisions in the Code throughout the year ended 31 December 2011, 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 recommended best practices of the Code 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 the Directors, it is confirmed that all the Directors have complied with the standards as stipulated in the Model Code throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

The Board currently comprises the following members:

Mr Qian Fu Qing	Chairman, chief executive officer and executive Director
Mr Cai Yong	Executive Director
Ms Xu Yan Hua	Non-executive Director
Mr Chan Yuk Tong	Independent non-executive Director
Mr Zhao Zi Lin	Independent non-executive Director
Dr Lu Bing Heng	Independent non-executive Director

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 year ended 31 December 2011, the Board had held four regular meetings, the notices of which were sent to all the Directors not less than 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 recommended best practices in A.2.4 set out in the Code. 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

The composition of the Board is in accordance with the requirement of Rule 3.10 of the Listing Rules. The Company has three independent non-executive Directors, namely Mr Chan Yuk Tong, Mr Zhao Zi Lin and Dr Lu Bing Heng, constituting over one third of the Board. Among them, Mr Chan Yuk Tong possesses accounting professional qualification and 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 non-executive Directors (including independent non-executive Directors) is three years and would expire on 9 June 2013.

Each of the non-executive Directors (including independent non-executive Directors) is subject to the retirement by rotation and re-election as set out in the Company's Articles of Association.

REMUNERATION COMMITTEE

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. In view of the recent changes to the requirements under the Code, the Board adopted a set of new terms of reference for the Company's remuneration committee with effect from 21 March 2012 to bring them in line with such requirements. The new terms of reference are available on the Company's website. Subsequent to the adoption of the new terms of reference, the primary duties of the remuneration committee of the Company include:

(a) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These should include benefits in kind (including share options), pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);

(d) make recommendations to the Board on the remuneration of non-executive Directors;

(e) Formulate remuneration policy for Board approval, having taken into account factors such as salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

(f) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair, reasonable and not excessive;

(g) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(h) ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration;

(i) determine the criteria for evaluating employees performance which reflect the business goals and objectives of the Company; and

(j) make recommendations to the Board on the annual performance bonuses for executive Director, senior management and general staff, after evaluating their performances and considering relevant market standards.

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 shall hold at least one meeting per year. During the year 2011, the remuneration committee held three meetings and had recommended remuneration packages for the Directors and senior management for the Board's consideration. The remuneration committee had also recommended the increase of Ms Xu Yan Hua's remuneration for acting as non-executive Director, considered and recommended to the Board the adoption of the share option scheme and the grant of share options.

NOMINATION COMMITTEE

The Company has established the nomination committee which makes 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, but is eligible for re-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 any 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 re-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.

In view of the recent changes to the requirements under the Code, the Board adopted a set of new terms of reference for the Company's nomination committee with effect from 21 March 2012 to bring them in line with such requirements. The new terms of reference are available on the Company's website. Subsequent to the adoption of the new terms of reference, the primary duties of the nomination committee of the Company include:

(a) review the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the corporate strategy of the Company;

(b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The detailed resumes of the nominated candidates would be provided to the Board and shareholders for them to make an informed decision;

(c) formulate nomination policy for Board approval and apply the nomination policy established by the Board;

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

(e) make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

The nomination committee resolves to approve any recommendation on proposed Directors by a majority vote of the members of the committee. 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 year 2011, the nomination committee had held one meeting to review the retirement of Directors. Besides, the nomination committee also recommended to the Board the proposal to formulate the nomination policy and assessed the independence of the independent non-executive Directors.

EXTERNAL AUDITORS' REMUNERATION

During the year ended 31 December 2011, the remuneration paid/payable to Deloitte Touche Tohmatsu, the external auditors of the Company, amounted to approximately RMB2,050,000.

In addition, Deloitte Touche Tohmatsu provided non-audit services to the Company during the year ended 31 December 2011 and received remuneration of RMB680,000. 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 written terms of reference of the audit committee are 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.

In view of the recent changes to the requirements under the Code, the Board adopted a set of new terms of reference for the Company's audit committee with effect from 21 March 2012 to bring them in line with such requirements. The new terms of reference are available on the Company's website. Subsequent to the adoption of the new terms of reference, the primary duties of the audit committee of the Company include:

(a) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors and any questions of its resignation and dismissal, and discuss with the auditors the nature and scope of the audit and reporting obligation before the audit commences;

(b) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgements contained in them;

Corporate Governance Report

(d) develop and implement policy on engaging external auditors to supply 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 performed its duty to establish an effective internal control system;

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

(g) review the Company's financial controls, internal control and risk management systems; and

(h) ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter.

The audit committee shall hold at least two meetings per year. During the year 2011, the audit committee had held three meetings to review the auditors' remuneration, the independence of the external auditors, Deloitte Touche Tohmatsu, and recommend to the Board the reappointment of Deloitte Touche Tohmatsu as the external auditors of the Company for the year 2012, which is subject to the approval of shareholders at the annual general meeting of 2011.

The Company's interim results for the period ended 30 June 2011 and the annual results for the year ended 31 December 2011 have been reviewed by the audit committee.

DIRECTORS' ATTENDANCE AT MEETINGS

During the year ended 31 December 2011, 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	8	–	3	1
Ms Ren Feng Mei (resigned on 27 May 2011)	2	–	–	–
Mr Cai Yong	10	–	–	–
Non-executive Directors				
Ms Xu Yan Hua	10	3	–	–
Mr Ng Ming Chee James (resigned on 30 September 2011)	5	–	–	–
Independent Non-executive Directors				
Mr Chan Yuk Tong	6	3	–	1
Dr Lu Bing Heng	7	–	3	1
Mr Zhao Zi Lin	6	3	3	–

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 2011. 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 42 to page 43 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, which in turn assigns the internal audit department to carry out such review. For the year ended 31 December 2011, 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 2011; 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 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 year ended 31 December 2011, an annual general meeting of the Company was held on 27 May 2011.

Executive Directors

Mr Qian Fu Qing (錢福卿先生), aged 57, 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 in 2007. Mr Qian is the spouse of Ms Xu Yan Hua, a non-executive Director of the Company.

Mr Cai Yong (蔡勇先生), aged 37, has been an executive Director of the Company since 10 June 2010. He also 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 with extensive experience in design, research and development. He obtained a junior college qualification jointly granted by Nanjing University and Dongnan University in 2001.

Non-executive Director

Ms Xu Yan Hua (徐燕華女士), aged 56, 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 at Nanjing Normal University. Ms Xu is the spouse of Mr Qian Fu Qing, the chairman and chief executive officer of the Company.

Directors and Senior Management

Independent Non-executive Directors

Mr Chan Yuk Tong (陳育棠先生), aged 49, 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 May 2011
	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
Sinopoly Battery Limited (formerly known as Thunder Sky Battery Limited and Jia Sheng Holdings Limited)	Independent non-executive director	November 2006 to present
Kam Hing International Holdings Limited	Independent non-executive director	March 2004 to present
Xinhua Winshare Publishing and Media Co., Ltd	Independent non-executive director	April 2006 to present

Directors and Senior Management

Dr Lu Bing Heng (盧秉恒博士), aged 67, 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 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 63, 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 ("CAME"), a non-profit academic and legal entity approved by and registered with the Ministry of Civil Affairs in the PRC and directly supervised by the Ministry of Health. Mr Zhao has more than twenty 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 46, has been the chief financial officer of the Company since December 2010. Mr Wang has more than twenty years of 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 which was 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 Chen Jia Kang (陳家康先生), aged 34, is the general manager of sales and marketing of the Company. Mr Chen joined the Company in February 2011 and is responsible for overseeing its sales and marketing strategies. Prior to joining the Company, Mr Chen had served as the Director of Marketing at Medinno Company, a subsidiary of France Medicrea in China, since 2008. Prior to that, he held the position of Business Director of surgical business at Shanghai HOTIN Trading Company for four years. Mr Chen began his corporate career in 2003 at Shanghai Orthopaedic Innovation Company as a product specialist and regional manager. Mr Chen is a qualified orthopaedic surgeon and has over five years of clinical experience.

Directors and Senior Management

Mr Sun Yong Xin (孫勇欣先生), aged 40, is the chief operation officer of the Company. Mr Sun has more than thirteen years of working experience in technical operations and business management. Mr Sun joined the Company in May 2011 as Director of Strategy and became the chief operation officer of the Company since 1 January 2012. Prior to joining the Company, Mr Sun had worked at Siemens Ltd., China for more than thirteen years, serving in the industry division and healthcare division. Throughout these years he had held various positions in technical management, sales, strategic planning and business operations. During his tenure at Siemens, Mr Sun had been selected as one of the top talents in the healthcare sector of Siemens AG. From 2003 to 2004, he was also nominated to participate in Siemens AG's global leadership program in Germany. Mr Sun received his bachelor's degree in industrial electrical automation from Beijing Institute of Machinery Industry in 1996.

Company Secretary

Ms Ma Sau Kuen Gloria (馬秀絹女士), aged 53, has been the Company Secretary and Authorised Representative of the Company since 19 November 2010. Ms Ma has over thirty 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 2011.

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the principal subsidiaries are set out in note 33 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 2011 and the financial position of the Company and the Group as at that date are set out in the consolidated financial statements on pages 44 to 100 of this annual report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five 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

The details of movements in the Company's share capital and share options during the year, together with the reasons therein, are set out in notes 25 and 31 to the consolidated financial statements.

SHARE OPTION SCHEME

On 27 May 2011, the shareholders of the Company approved and adopted a share option scheme (the "Share Option Scheme") which shall be valid and effective for a period of 10 years from 27 May 2011. Key terms of the Share Option Scheme are summarized below:

(i) The purpose of the Share Option Scheme is to recognise and acknowledge the contributions the eligible participants have made or may have made to the Group. Eligible participants include (i) any full-time or part-time employees, executives or senior officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; or (iii) any advisers, consultants, suppliers, customers, agents and other persons who in the sole discretion of the Board have contributed or will contribute to the Company or any of its subsidiaries (collectively, the "Eligible Participants"). The Directors consider that the Share Option Scheme will offer Eligible Participants an opportunity to have a personal stake in the Company with a view to achieving the objectives of motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Report of the Directors

(ii) The total number of ordinary shares of the Company of HKD0.10 each ("Shares") in respect of which options may be granted under the Share Option Scheme is 77,432,862 Shares, being 10% of the total number of Shares in issue as at 27 May 2011. As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 61,352,862 shares, representing approximately 8% of the issued share capital of the Company.

(iii) Unless approved by shareholders in a general meeting, no participant shall be granted an option within the 12-month period up to and including the proposed date on which the grant of an option is made (the "Grant Date"), if such grant would result in the total number of Shares already issued and which may fall to be issued upon exercise of such option proposed to be granted and all other options already granted and to be granted to him/her under the Share Option Scheme and any other share option scheme(s) of the Group representing in aggregate over 1% of the number of Shares in issue as at the proposed Grant Date.

(iv) The limit on the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of any member of the Group must not exceed 30% of the number of Shares in issue from time to time.

(v) The exercise price for Shares under the Share Option Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the higher of: (i) the closing price of the Shares as stated in the HKSE's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the HKSE's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

(vi) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board, which must not be more than 10 years from the Grant Date.

On 30 September 2011, the Company granted options to certain individuals under the Share Option Scheme.

Details of the options granted during the year ended 31 December 2011 are set out below:

				Number of options					
Name or category of participant	**Date of grant**	**Exercise price per share (HK$)**	**Exercise period**	**Outstanding as at 1 January 2011**	**Granted during the period**	**Exercised during the period**	**Cancelled during the period**	**Lapsed during the period**	**Balance as at 31 December 2011**
Employees	30 September 2011	2.17	30 September 2011 to 29 September 2021 *(Note 3)*	-	16,080,000 *(Notes 1 and 2)*	-	-	-	16,080,000
					16,080,000	-	-	-	16,080,000

Notes:

1. 18,810,000 options were granted on 30 September 2011, of which 16,080,000 options were accepted by the grantees before expiry of the acceptance period.

2. The closing price of the Shares of the Company immediately before the date on which the options were granted was HK$2.10.

3. The vesting periods of the options granted are as follows:
   (i) 25% of the total number of options granted at first anniversary of the date of grant;
   (ii) 25% of the total number of options granted at second anniversary of the date of grant;
   (iii) 25% of the total number of options granted at third anniversary of the date of grant; and
   (iv) 25% of the total number of options granted at fourth anniversary of the date of grant.

The total number of Shares involved in the options outstanding at end of the year represents 2.1% of the issued share capital of the Company as at the date of this report.

None of the grantees is a Director, chief executive or substantial shareholder of the Company, or their respective associates (as defined in the Listing Rules).

DIVIDEND

An interim dividend of RMB1.68 cents and a special dividend of RMB1.55 cents per ordinary share were distributed during the year. The Board proposed a final dividend of RMB3.79 cents and a special dividend of RMB9.21 cents per ordinary share for the year ended 31 December 2011 which are subject to the approval by the shareholders of the Company at the annual general meeting ("AGM") to be held on 16 May 2012. The proposed dividends are payable in Hong Kong Dollars based on the official exchange rate of RMB against Hong Kong Dollars as quoted by the People's Bank of China on 16 May 2012. Upon shareholders's approval, the proposed dividends will be paid on or about 6 June 2012 to shareholders whose name shall appear on the register of members of the Company on 24 May 2012.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from 14 May 2012 to 16 May 2012, both days inclusive, during which no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 11 May 2012.

Report of the Directors

For the purpose of determination of shareholders' entitlements to the final dividend and the special dividend, the register of members of the Company will be closed from 22 May 2012 to 24 May 2012, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the final dividend and the special dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21 May 2012.

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 of its subsidiaries during the year ended 31 December 2011.

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 26 to the consolidated financial statements and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

Pursuant to 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 31 December 2011, the distributable reserves of the Company amounted to approximately RMB671,764,000.

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 RMB505,000.

BORROWINGS

As at 31 December 2011, 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	25.59%	
Five largest customers in aggregate	47.03%	
The largest supplier		23.10%
Five largest suppliers in aggregate		54.23%

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

During the year ended 31 December 2011 and as at the date of this report, the Directors are as follows:

Executive Directors

Mr Qian Fu Qing
Ms Ren Feng Mei (resigned on 27 May 2011)
Mr Cai Yong

Non-executive Directors

Ms Xu Yan Hua
Mr Ng Ming Chee, James (resigned on 30 September 2011)

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Independent Non-executive Directors

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

In accordance with article 16.18 of the Company's Articles of Association, Ms Xu Yan Hua and Mr Cai Yong 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.

CHANGES IN DIRECTORS AND DIRECTORS' INFORMATION

Ms Ren Feng Mei resigned as an executive Director with effect from 27 May 2011 and Mr Ng Ming Chee, James resigned as a non-executive Director with effect from 30 September 2011.

Ms Xu Yan Hua, a non-executive Director, is entitled to receive director's remuneration of RMB400,000 per annum with effect from 30 September 2011 pursuant to the supplementary agreement entered into between the Company and Ms Xu on 21 September 2011.

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors are set out in note 11 to the consolidated financial statements.

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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

As at 31 December 2011, the interests and short positions of the Directors and the chief executive 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 Laws 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 contained in 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 *(Note 2)*	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 2011, none of the Directors and the chief executive 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 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 2011, the interests and short positions of the substantial shareholders of the Company (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as 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 Limited *(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	53,340,000	6.88%
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, 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.

Report of the Directors

Save as disclosed above, as at 31 December 2011, the Company had not been notified by any substantial shareholder (other than a Director or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as 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 32 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 Board, 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

The Board has adopted all code provisions under the Code as set out in Appendix 14 to the Listing Rules as the Code of the Company. The Company has complied with all applicable code provisions under the Code throughout the year ended 31 December 2011, save and except the only deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Although Mr Qian 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they had complied with the Model Code throughout the year ended 31 December 2011.

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, 21 March 2012

Independent Auditor's Report

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 44 to 100, which comprise the consolidated statement of financial position as at 31 December 2011, 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 2011 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
21 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	7	**384,841**	290,742
Cost of sales		**(109,067)**	(79,378)
Gross profit		**275,774**	211,364
Other income and other gains and losses	8	**14,579**	(2,311)
Distribution and selling expenses		**(26,913)**	(17,896)
Administrative expenses		**(65,194)**	(36,725)
Research and development expenses		**(15,763)**	(10,617)
Other expenses	9	**(598)**	(13,906)
Interest expense in relation to bank loans wholly repayable within five years		**-**	(325)
Profit before tax	10	**181,885**	129,584
Income tax expense	12	**(40,771)**	(23,325)
Profit for the year and total comprehensive income for the year		**141,114**	106,259
Profit for the year attributable to owners of the Company		**141,114**	106,259
		RMB	RMB
Earnings per share – Basic and diluted	13	**0.18**	0.16

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**171,428**	149,236
Prepaid lease payments	16	**18,896**	19,323
Deposit for acquisition of land use rights		**12,988**	–
Intangible asset	17	**9,087**	6,186
Deferred tax assets	18	**7,580**	5,150
		219,979	179,895
Current assets			
Inventories	19	**61,460**	46,209
Trade and other receivables	20	**156,387**	97,488
Prepaid lease payments	16	**423**	423
Bank balances and cash	21	**695,990**	698,766
		914,260	842,886
Current liabilities			
Trade and other payables	22	**61,262**	49,202
Amounts due to related parties	23	**275**	200
Tax liabilities		**19,086**	8,980
Deferred income	24	**1,020**	1,431
		81,643	59,813
Net current assets		**832,617**	783,073
Total assets less current liabilities		**1,052,596**	962,968
Non-current liabilities			
Deferred tax liabilities	18	**6,937**	4,118
Deferred income	24	**2,886**	5,471
		9,823	9,589
Net assets		**1,042,773**	953,379

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	25	**68,141**	68,141
Reserves	26	**974,632**	885,238
Total equity attributable to owners of the Company		**1,042,773**	953,379

The consolidated financial statements on pages 44 to 100 were approved and authorised for issue by the board of directors on 21 March 2012 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 2011

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2010	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 26)	49,480	118,592	(168,072)	–	–	–	–
Dividends (Note 14)	–	–	–	–	–	(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
Profit for the year and total comprehensive income for the year	–	–	–	–	–	141,114	141,114
Recognition of equity-settled share-based payments (Note 31)	–	–	–	934	–	–	934
Dividends (Note 14)	–	–	–	–	–	(52,654)	(52,654)
Appropriation of statutory surplus reserve	–	–	–	–	16,822	(16,822)	–
At 31 December 2011	68,141	724,392	(165,148)	934	52,989	361,465	1,042,773

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before tax	**181,885**	129,584
Adjustments for:		
Depreciation of property, plant and equipment	**14,336**	10,598
Equity-settled share-based payments	**934**	–
Write-down (reversal of write-down) of inventories	**658**	(3,400)
Impairment losses on trade and other receivables	**9,163**	1,310
Release of prepaid lease payments on land use rights	**427**	834
Loss (gain) on disposal of property, plant and equipment	**231**	(111)
Interest income	**(19,895)**	(5,948)
Interest expense	**-**	325
Operating cash flows before movements in working capital	**187,739**	133,192
(Increase) decrease in inventories	**(15,909)**	748
Increase in trade and other receivables	**(69,272)**	(27,869)
Increase in trade and other payables	**16,709**	4,147
Increase (decrease) in amounts due to related parties	**75**	(592)
(Decrease) increase in deferred income	**(2,996)**	2,339
Net cash generated from operations	**116,346**	111,965
PRC income tax paid	**(30,276)**	(17,062)
Net cash from operating activities	**86,070**	94,903
Investing activities		
Interest received	**21,484**	4,359
Payments for acquisition of land use rights	**(12,988)**	–
Payments for acquisition of property, plant and equipment	**(42,465)**	(63,081)
Proceeds from disposals of property, plant and equipment	**678**	1,214
Entrusted loans granted	**(115,000)**	–
Repayment of entrusted loans	**115,000**	–
Development costs paid and capitalised	**(2,901)**	(3,463)
Repayment from related parties	**-**	9,706
Government grants received	**-**	4,563
Proceeds from disposal of land use rights	**-**	14,988
Net cash used in investing activities	**(36,192)**	(31,714)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Financing activities		
Dividends paid	**(52,654)**	(13,414)
Short-term bank loans raised	**-**	30,000
Repayment of short-term bank loans	**-**	(30,000)
Repayment to a shareholder	**-**	(33,519)
Proceeds from issue of shares	**-**	650,655
Payment for expenses on issue of shares	**-**	(26,214)
Interest paid	**-**	(325)
Net cash (used in) from financing activities	**(52,654)**	577,183
Net (decrease) increase in cash and cash equivalents	**(2,776)**	640,372
Cash and cash equivalents at beginning of the year	**698,766**	58,394
Cash and cash equivalents at end of the year, represented by		
Bank balances and cash	**695,990**	698,766

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

Trauson Holdings Company Limited (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 "HKSE") 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 33.

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).

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

In the current year, the Company and its subsidiaries (together as the "Group") has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)–Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – continued

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 (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 2015. Based on the Group's financial assets and financial liabilities as at 31 December 2011, the application of the new standard is not expected to have significant impact to the Group's consolidated financial statements.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted by the Company for the annual period beginning 1 January 2013 and the application of these five standards will not have significant impact on amounts reported in the consolidated financial statements of the Group and/or disclosures therein.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

IFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Company's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements or result in more extensive disclosures in the financial statements.

The directors of the Company anticipate that the application of other new and revised HKFRSs 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 HKSE and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 the 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.

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, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 in the consolidated statement of financial position 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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

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 People's Republic of China (the "PRC") and the Mandatory Provident Fund Scheme in Hong Kong are recognised 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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.

Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses on tangible and intangible assets – continued

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 (other than financial assets or financial liabilities of fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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, in addition, 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, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 as either financial liabilities or as equity in accordance with 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. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and amounts due to related parties 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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition – continued

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 and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when, and only when, the Group's obligations are 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.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 2011, the carrying amounts of trade receivables were approximately RMB142,892,000 (2010: RMB84,787,000).

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 2011, write down of inventories amounted to approximately RMB1,012,000 (2010: RMB316,000).

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 as at 31 December 2011 to determine whether the asset has suffered an impairment loss. The Group evaluated its development projects (at development phase as at 31 December 2011), 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 2011.

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. No impairment of property, plant and equipment is identified as at 31 December 2011.

Measurement of equity-settled share-based payment

The directors estimate the number of share options that are expected to ultimately vest based on the Group's historical information and their past experience. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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 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.

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For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS

6A. Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**841,505**	787,337
Financial liabilities		
Amortised cost	**35,357**	33,952

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 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$"), United States Dollars ("US$") and Euro ("EUR"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**21,777**	25,714	**–**	246
HK$	**3,628**	576,038	**–**	–
EUR	**731**	–	**–**	–

6. FINANCIAL INSTRUMENTS – continued

6B. Financial risk management objectives and polices – continued

Foreign currency risk – continued

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.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) change in US$, HK$ and EUR 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.

	2011	2010
	RMB'000	RMB'000
US$ impact	**893**	1,069
HK$ impact	**149**	24,193
EUR impact	**30**	–

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS – continued

6B. Financial risk management objectives and polices – continued

Interest rate risk – continued

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 50 basis point (2010: 100 basis points) increase represents management's assessment of the reasonably possible change in interest rates. The management adjusted the sensitivity rate from 100 basis points in prior year to 50 basis points for assessing interest rate risk after considering the recent development in government monetary policies.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would increased by approximately RMB2,854,000 (2010: RMB5,870,000).

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 2011, approximately 92% (2010: 87%) of the bank balances were deposited at three (2010: 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.

6. FINANCIAL INSTRUMENTS – continued

6B. Financial risk management objectives and polices – continued

Credit risk – continued

Total amount due from two largest trade debtors accounted for approximately 38% (2010: 33%) of the total trade receivables of the Group as at 31 December 2011. The Group has no significant concentration of credit risk in respect of the remaining 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.

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 2011			
Trade and other payables	–	35,082	35,082
Amounts due to related parties	–	275	275
		35,357	35,357
At 31 December 2010			
Trade and other payables	–	33,752	33,752
Amounts due to related parties	–	200	200
		33,952	33,952

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS – continued

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 segments:

	2011 RMB'000	2010 RMB'000
Segment revenue		
Trauma products	**244,225**	183,626
Spine products	**60,297**	34,274
OEM products	**57,163**	57,804
Others	**23,156**	15,038
Total revenue	**384,841**	290,742
Segment profit		
Trauma products	**199,190**	149,766
Spine products	**49,017**	28,053
OEM products	**26,846**	32,191
Others	**721**	1,354
Total segment profit	**275,774**	211,364
Unallocated income and other gains and losses	**14,579**	(2,311)
Unallocated expenses:		
Distribution and selling expenses	**(26,913)**	(17,896)
Administrative expenses	**(65,194)**	(36,725)
Research and development expenses	**(15,763)**	(10,617)
Other expenses	**(598)**	(13,906)
Interest expense in relation to bank loans wholly repayable within five years	**-**	(325)
Profit before tax	**181,885**	129,584
Income tax expense	**(40,771)**	(23,325)
Profit for the year and total comprehensive income for the year	**141,114**	106,259

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 customers

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

	2011	2010
	RMB'000	RMB'000
Customer A in OEM products segment	**57,163**	57,804
Customer B in trauma and spine segments	**98,484**	–
	155,647	57,804

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For the year ended 31 December 2011

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	2011	2010
	RMB'000	RMB'000
Interest income	**19,895**	5,948
Government grants (Note)	**5,654**	8,054
(Loss) gain on disposal of property, plant and equipment	**(231)**	111
Net foreign exchange loss	**(11,145)**	(16,557)
Others	**406**	133
	14,579	(2,311)

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

9. OTHER EXPENSES

	2011	2010
	RMB'000	RMB'000
Donation	**505**	205
Legal and professional fees (Note)	**–**	13,685
Others	**93**	16
	598	13,906

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

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For the year ended 31 December 2011

10. PROFIT BEFORE TAX

	2011 RMB'000	2010 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration (Note 11)	**6,783**	4,197
Staff costs	**67,552**	54,918
Employees' retirement benefit schemes contributions	**4,253**	3,359
Equity-settled share-based payments	**934**	–
Total staff costs	**79,522**	62,474
Cost of inventories recognised as expense	**109,067**	79,378
Depreciation of property, plant and equipment	**14,336**	10,598
Auditor's remuneration	**2,050**	2,100
Impairment losses on trade receivables	**9,163**	1,175
Impairment losses on other receivables	**–**	135
Release of prepaid lease payments	**427**	834
Write-down of inventories (Note)	**1,012**	316
Reversal of write-down of inventories (Note)	**(354)**	(3,716)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Fees	Salaries and other benefits	Performance related bonuses	Retirement benefit schemes contributions	Total
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000
2011:					
Mr Qian Fu Qing	**-**	**1,068**	**3,095**	**-**	**4,163**
Ms Xu Yan Hua	**149**	**-**	**56**	**-**	**205**
Mr Cai Yong	**-**	**499**	**233**	**4**	**736**
Ms Ren Feng Mei (resigned on 27 May 2011)	**-**	**681**	**357**	**5**	**1,043**
Mr Chan Yuk Tong	**162**	**-**	**-**	**-**	**162**
Dr Lu Bing Heng	**162**	**-**	**-**	**-**	**162**
Mr Zhao Zi Lin	**162**	**-**	**-**	**-**	**162**
Mr Ng Ming Chee James (resigned on 30 September 2011)	**150**	**-**	**-**	**-**	**150**
	785	**2,248**	**3,741**	**9**	**6,783**
2010:					
Mr Qian Fu Qing	-	1,029	418	-	1,447
Ms Xu Yan Hua	490	-	85	-	575
Mr Cai Yong	-	373	244	3	620
Ms Ren Feng Mei	-	301	534	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
	1,206	1,703	1,281	7	4,197

Note: The performance related bonuses are determined by reference to the individual performance of the directors and the Group's financial performance.

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For the year ended 31 December 2011

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Of the five individuals with highest emoluments in the Group, one (2010: two) was a director of the Company whose emoluments are set out above. The emoluments of the remaining four (2010: three) individuals were as follows:

	2011	2010
	RMB'000	RMB'000
Employees		
– salaries and other benefits	**4,376**	4,305
– retirement benefit schemes contributions	**23**	38
– equity-settled share-based payments	**105**	–
	4,504	4,343

Their emoluments were within the following bands:

	2011	2010
	No. of employees	No. of employees
HK$nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**3**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	1

During each of the years ended 31 December 2011 and 2010, 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 each of the years ended 31 December 2011 and 2010.

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For the year ended 31 December 2011

12. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax:		
PRC enterprise income tax ("EIT")	**29,632**	20,343
Under provision in prior year:		
PRC EIT	**6,500**	–
Withholding tax on PRC dividends paid	**4,250**	2,500
Deferred tax charge:		
Current year	**389**	482
	40,771	23,325

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.

Trauson (China) Medical Instrument Company Limited ("Trauson China") and Changzhou Orthmed Medical Instrument Company Limited ("Changzhou Orthmed"), being both foreign investment enterprises registered in Changzhou city, Jiangsu province, 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 China 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.

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For the year ended 31 December 2011

12. INCOME TAX EXPENSE – continued

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

	2011	2010
	RMB'000	RMB'000
Profit before tax	**181,885**	129,584
Tax at the PRC income tax rate of 25%	**45,471**	32,396
Tax effect of income not taxable for tax purpose	**(41)**	(566)
Tax effect of expenses not deductible for tax purpose	**3,094**	7,288
Tax effect of tax losses not recognised	**1,390**	248
Effect of additional tax reduction on allowable research and development expenditure	**(1,940)**	(1,088)
Effect of tax exemptions granted to PRC subsidiaries	**(20,836)**	(20,937)
Differential tax rate on temporary differences	**64**	613
Differential tax rate of subsidiaries operating in other jurisdictions	**-**	128
Under provision of EIT in prior year	**6,500**	–
Withholding tax on PRC dividends paid	**1,522**	1,169
Withholding tax on undistributed profits of PRC subsidiaries	**5,547**	4,074
Taxation for the year	**40,771**	23,325

13. EARNINGS PER SHARE

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

	2011	2010
Profit		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	**141,114**	106,259
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**774,328,625**	669,159,593

13. EARNINGS PER SHARE – continued

The number of shares for the purpose of basic earnings per share for the year ended 31 December 2011 has been determined on the number of ordinary shares of the Company in issue throughout the year.

The number of shares for the purpose of basic earnings per share for the year ended 31 December 2010 has been determined on the assumption that the ordinary shares of the Company issued upon the Group Reorganisation (as defined in note 26) have been in issue on 1 January 2010 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 does not assume the exercise of the Company's outstanding share options as the exercise price (after adjustment for future services to be rendered according to HKFRS 2 Share-based Payments) of those options is higher than the average market price of the shares. Accordingly, diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2011.

14. DIVIDENDS

	2011	2010
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2011 Interim – RMB1.68 cents (2010: nil) per share	**13,008**	–
2011 Special – RMB1.55 cents (2010: nil) per share	**12,002**	–
2010 Final – RMB3.57 cents (2010: nil) per share	**27,644**	–
Pre-listing dividends	**–**	13,414
	52,654	13,414

The final dividend of RMB3.79 cents (2010: RMB3.57 cents) per share and a special dividends of RMB9.21 cents (2010: Nil) per share in respect of the year ended 31 December 2011 have been proposed by the directors of the Company and is subject to approval by the shareholders in general meeting.

On 8 March 2010, Trauson (Hong Kong) Company Limited ("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. The dividends were paid before the listing of the Company's shares on the Main Board of the HKSE.

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For the year ended 31 December 2011

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2010	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
Additions	255	23,884	3,061	1,966	8,271	37,437
Disposals	(54)	(768)	(285)	(1,906)	–	(3,013)
Transfers	527	1,199	–	–	(1,726)	–
At 31 December 2011	106,087	82,984	16,606	10,086	6,545	222,308
DEPRECIATION						
At 1 January 2010	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
Provided for the year	4,556	6,024	1,839	1,917	–	14,336
Eliminated on disposals	(9)	(755)	(10)	(1,330)	–	(2,104)
At 31 December 2011	13,561	25,407	8,626	3,286	–	50,880
CARRYING VALUES						
At 31 December 2011	92,526	57,577	7,980	6,800	6,545	171,428
At 31 December 2010	96,345	38,531	7,033	7,327	–	149,236

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%

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For the year ended 31 December 2011

16. PREPAID LEASE PAYMENTS

	2011	2010
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**423**	423
Non-current assets	**18,896**	19,323
	19,319	19,746

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

17. INTANGIBLE ASSET

	Development costs
	RMB'000
COST AND CARRYING VALUE	
At 1 January 2010	2,723
Additions	3,463
At 31 December 2010	6,186
Additions	2,901
At 31 December 2011	9,087

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

18. DEFERRED TAXATION

For the purpose 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 purpose:

	2011	2010
	RMB'000	RMB'000
Deferred tax assets	**7,580**	5,150
Deferred tax liabilities	**(6,937)**	(4,118)
	643	1,032

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

	Write-down of inventories	**Deferred income**	**Other provisions**	**Withholding tax on undistributed profits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	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
Reversal upon payment of withholding tax	–	–	–	2,728	2,728
Credit (charge) to consolidated statement of comprehensive income for the year	274	(133)	2,289	(5,547)	(3,117)
At 31 December 2011	2,295	692	4,593	(6,937)	643

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 RMB55 million (2010: RMB35 million), 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.

18. DEFERRED TAXATION – continued

At the end of the reporting period, the Group has unused tax losses of approximately RMB7,800,000 (2010: RMB1,500,000) 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. Included in the unrecognised tax losses are losses of RMB3,300,000 (2010: Nil) that will expire in 2016. Other losses may be carried forward indefinitely.

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

19. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials	**16,816**	11,535
Work-in-progress	**24,790**	14,179
Finished goods	**19,854**	20,495
	61,460	46,209

20. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Trade receivables	**155,349**	88,081
Less: allowance for doubtful debts	**(12,457)**	(3,294)
	142,892	84,787
Advances to suppliers	**7,460**	6,134
Other receivables	**2,623**	3,784
Deposits	**2,191**	1,935
Prepaid expenses	**1,221**	848
	156,387	97,488

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20. TRADE AND OTHER RECEIVABLES – continued

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:

	2011	2010
	RMB'000	RMB'000
0 to 90 days	**125,028**	66,816
91 to 180 days	**14,315**	12,005
181 to 360 days	**3,319**	5,145
Over 360 days	**230**	821
	142,892	84,787

At 31 December 2011, included in the Group's trade receivables are debtors with a carrying amount of RMB51,610,000 (2010: RMB37,059,000), 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 2011:

	2011	2010
	RMB'000	RMB'000
At beginning of the year	**3,294**	2,119
Impairment losses recognised on trade receivables	**9,163**	1,175
At end of the year	**12,457**	3,294

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.

20. TRADE AND OTHER RECEIVABLES – continued

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 purpose as:

	2011 RMB'000	2010 RMB'000
Trade receivables denominated in US$	**19,525**	22,218

21. 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 4.25% per annum (2010: 0.01% to 3.00% 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:

	2011 RMB'000	2010 RMB'000
Denominated in:		
US$	**2,252**	3,496
HK$	**3,628**	576,038
EUR	**731**	–

Certain bank balances and cash of the Group of approximately RMB689,379,000 (2010: RMB119,232,000) 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.

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22. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	RMB'000
Trade payables	**10,823**	12,169
Advances from customers	**2,874**	4,158
Payroll payables	**19,710**	13,676
Accrued expenses	**10,151**	7,444
Other tax liabilities	**13,155**	3,848
Other payables	**4,549**	7,907
	61,262	49,202

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:

	2011	2010
	RMB'000	RMB'000
0 to 90 days	**9,835**	11,316
91 to 180 days	**256**	396
181 to 360 days	**51**	303
Over 360 days	**681**	154
	10,823	12,169

Notes to the Consolidated Financial Statements

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23. AMOUNTS DUE TO RELATED PARTIES

	2011 RMB'000	2010 RMB'000
Changzhou Cofey Refrigeration Equipment Co., Ltd. ("Changzhou Cofey") (Note a)	**257**	152
Plusrite Electric (Jiangsu) Co., Ltd. ("Plusrite") (Note b)	**18**	–
Biorth Incorporation ("Biorth") (Note c)	**-**	48
	275	200

Notes:

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

(b) Plusrite is wholly owned by Ms Xu.

(c) Biorth is wholly owned by Mr Qian Song, son of Mr Qian Fu Qing ("Mr Qian") and Ms Xu.

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

	2011 RMB'000	2010 RMB'000
0 to 90 days	**275**	200

The trade 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.

24. 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 when 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.

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25. SHARE CAPITAL

	Number of shares	Amounts
		HKD'000
Ordinary shares of HK$0.10 each:		
Authorised		
At date of incorporation, at 31 December 2010 and 2011	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 and 2011	774,328,625	77,433

	RMB'000
Shown in the consolidated statement of financial position:	
At 31 December 2011	**68,141**
At 31 December 2010	**68,141**

There is no movement in issued share capital of the Company during the year ended 31 December 2011.

During the year ended 31 December 2010, the movements in issued share capital of the Company are as follows:

- 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 (as defined in note 26) in exchange for the entire equity interest in Trauson Hong Kong and Orthmed (Hong Kong) Medical Instrument Company Limited ("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.

25. SHARE CAPITAL – continued

- 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 date 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.

26. RESERVES

Special reserve

There is no movement in special reserve of the Group during the year ended 31 December 2011.

During the year ended 31 December 2010, special reserve arose from the Group Reorganisation as follows:

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 HKSE, 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 and 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 PRC. 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. Thereafter, the Company became the holding company of its subsidiaries on 10 March 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.

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26. RESERVES – continued

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.

27. 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 2011, such claims amounted to approximately RMB1.4 million (2010: RMB2.0 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 2011 and 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 cases which the Group was held liable, the amount paid by the Group is less than 1% of the relevant claims. 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.

28. COMMITMENTS

	2011 **RMB'000**	2010 RMB'000
Capital expenditure in respect of the acquisition of land use rights contracted for but not provided in the consolidated financial statements	**6,996**	–

29. 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' basic 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 RMB4,262,000 (2010: RMB3,366,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2011, contributions of approximately RMB3,314,000 (2010: RMB3,182,000) due in respect of current and prior accounting periods had not been paid over to the schemes.

30. 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 HKSE. 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 ended 31 December 2010.

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For the year ended 31 December 2011

31. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 27 May 2011 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2021. Under the Scheme, the board of directors of the Company may grant options to (i) any full-time or part-time employees, executives and senior officers of the Company and any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company and any of its subsidiaries; and (iii) any advisors, consultants, suppliers, customers, agents and other persons who, in the sole discretion of the board of directors, have contributed or will contributed to the Company or its subsidiaries.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 77,432,862 shares of the Company, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the Company's shares in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors of the Company or their respective associates in any 12-month period in excess of 0.1% of the Company's shares in issue and with a market value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options offered must be accepted within 28 days of the date of offer, upon payment of HK$1 as consideration. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

31. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company – continued

During the year ended 31 December 2011, 16,080,000 (2010: Nil) options were granted to employees of the Group on 12 October 2011. Details of the share options granted are as follows:

Option series	Date of grant	Vesting proportion	Exercise period	Exercise price
				HK$
2011	12/10/2011	25%	12/10/2012-12/10/2021	2.17
		25%	14/10/2013-12/10/2021	2.17
		25%	13/10/2014-12/10/2021	2.17
		25%	12/10/2015-12/10/2021	2.17

The following table discloses movements of the Company's share options held by employees during the year:

Option series	Outstanding at 1/1/2011	Granted during year	Exercised during year	Forfeited during year	Expired during year	Outstanding at 31/12/2011
2011	-	16,080,000	-	-	-	16,080,000
Exercisable at the end of the year						-
Weighted average exercise price	-	HK$2.17	-	-	-	HK$2.17

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For the year ended 31 December 2011

31. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company – continued

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,080,000 (2010: Nil), representing 2% (2010: Nil) of the shares of the Company in issue at that date.

The estimated fair value of the share options granted during the current year on the grant date is approximately RMB8,430,000 (2010: Nil). The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	2011
Grant date share price	HK$1.90
Exercise price	HK$2.17
Expected volatility	45.4%
Option life	10 years
Risk-free interest rate	1.4%
Expected dividend yield	2.7%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

For the year ended 31 December 2011, the Group recognised the total expense of RMB934,000 (2010: Nil) in relation to share options granted by the Company.

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32. RELATED PARTY TRANSACTIONS

During the year, other than those disclosed in note 23, the Group had the following significant transactions with related parties:

	2011	2010
	RMB'000	RMB'000
Processing fee charge		
Changzhou Cofey	**683**	1,023
Sales of raw material		
Jiangsu Chuangying Medical Instrument Co., Ltd. ("Jiangsu Chuangying") (Note)	**54**	–
Purchase of raw materials		
Plusrite	**18**	–
Biorth	**–**	268
Rental income		
Jiangsu Chuangying (Note)	**113**	–
Rental paid		
Ms Xu	**928**	–
Purchase of property, plant and equipment		
Changzhou Cofey	**–**	158

Note: Jiangsu Chuangying is a subsidiary of Duoliang Investment.

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For the year ended 31 December 2011

32. RELATED PARTY TRANSACTIONS – continued

In addition, during the year ended 31 December 2011, the Group had entered into separate short-term entrustment agreements (the "Entrustment Agreements") with each of Ms Xu, Mr Qian (both directors of the Company) and Plusrite (hereinafter individually and collectively referred to as the "Entrusted Parties"). Pursuant to the terms of the Entrustment Agreements, the Group made, through the Entrusted Parties, certain short-term advances to two entities for investment purposes. Such advances were unsecured, repayable in one to three months and carried an annual interest rate at 5% or 10.8%. The Entrustment Agreements had expired during the year and the Group had recovered in full the principal amounts and interests of the advances made. The Entrusted Parties had provided their services under the Entrustment Agreements free of charge or for negligible fees to cover related tax expenses.

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

	2011 **RMB'000**	2010 RMB'000
Salaries and other benefits	**13,074**	9,168
Retirement benefit schemes contributions	**83**	57
Equity-settled share-based payments	**401**	–
	13,558	9,225

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33. 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 2011	2010	Principal activities
Trauson Holdings (BVI) Company Limited (Note)	British Virgins Islands 27 January 2010	US$1	**100%**	100%	Investment holding
Trauson Holdings (Hong Kong) 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 (China) Medical Instrument Company Limited 創生醫療器械（中國）有限公司	PRC 18 September 2003 (wholly-foreign owned enterprise)	US$105,200,000	**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$8,600,000	**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$1,500,000	**100%**	100%	Trading of orthopaedic implants and medical instruments

Note: Directly set up and held by the Company

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34. FINANCIAL INFORMATION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011 RMB'000	2010 RMB'000
Assets		
Property, plant and equipment	**8,670**	9,078
Investment in and amounts due from subsidiaries	**731,167**	686,122
Other receivables and prepaid expenses	**1,189**	1,519
Bank balances and cash	**771**	73,800
	741,797	770,519
Liabilities		
Other payables	**5**	4
Amounts due to subsidiaries	**1,887**	585
	1,892	589
Net assets	**739,905**	769,930
Share capital	**68,141**	68,141
Reserves	**671,764**	701,789
Total equity	**739,905**	769,930

TRAUSON

Trauson Holdings Company Limited

創生控股有限公司