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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of the voluntary general offer, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Trauson Holdings Company Limited, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s), licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Forms of Acceptance, the contents of which form part of the terms and conditions of the Offers.

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

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**stryker**<sup>®</sup>

**STRYKER CORPORATION**

*(incorporated in Michigan, United States of America)*

**stryker**<sup>®</sup>

**STRYKER INTERNATIONAL ACQUISITIONS B.V.**

*(incorporated in the Netherlands)*



**TRAUSON HOLDINGS COMPANY LIMITED**

**創生控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

*(Stock code: 325)*

**COMPOSITE OFFER AND RESPONSE DOCUMENT  
VOLUNTARY CONDITIONAL CASH OFFER BY BARCLAYS CAPITAL ASIA LIMITED  
ON BEHALF OF STRYKER INTERNATIONAL ACQUISITIONS B.V.  
TO ACQUIRE ALL OF THE OUTSTANDING SHARES IN THE ISSUED SHARE CAPITAL OF  
TRAUSON HOLDINGS COMPANY LIMITED AND  
TO CANCEL ALL OF THE OUTSTANDING SHARE OPTIONS OF  
TRAUSON HOLDINGS COMPANY LIMITED**

**Exclusive Financial Adviser to the Offeror Group**

**Exclusive Financial Adviser to Trauson**



**Independent Financial Adviser to the Independent Board Committee**



**SOMERLEY LIMITED**

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Holders of Shares and Options should inform themselves of and observe any applicable legal or regulatory requirements. See "Important Notice" beginning on page 3 of this Composite Document and "General matters relating to the Offers – Availability of the Offers" of the letter from Barclays beginning on page 24 of this Composite Document.

Capitalised terms used in this cover page have the same meaning as those defined in the section headed "Definitions" in this Composite Document. A letter from Barclays containing, among other things, the details of the terms and conditions of the Offers is set out on pages 12 to 27 of this Composite Document. A letter from the board of Trauson is set out on pages 28 to 33 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to Independent Trauson Shareholders and Trauson Optionholders in respect of the Offers is set out on pages 34 to 35 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 36 to 68 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances of the Share Offer and the Option Offer contained herein should be received by the Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on March 1, 2013 or such later time or date as the Offeror may determine and announce, with the consent of the Executive and in accordance with the Takeovers Code.

A notice convening an EGM of Trauson to be held at 2nd Floor, Victoria Room, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on Wednesday, February 27, 2013 at 10:00 a.m. is set out on pages 147 to 148 of this Composite Document. A form of proxy for use is enclosed with this Composite Document. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong share registrar of Trauson, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), not less than 48 hours before the time for holding the EGM. The completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) if you so wish.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the Forms of Acceptance to any jurisdiction outside of Hong Kong should read the details in this regard which are contained in the section headed "General matters relating to the Offers – Availability of the Offers" of the letter from Barclays in this Composite Document before taking any action. It is the responsibility of each overseas Trauson Shareholder and overseas Trauson Optionholder wishing to accept the Offers to satisfy himself, herself or itself as to full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Trauson Shareholders and overseas Trauson Optionholders are advised to seek professional advice on deciding whether to accept the Offers.

February 7th, 2013

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## EXPECTED TIMETABLE

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*The timetable set out below is indicative only and any changes to the timetable will be announced by the Offeror Parent, the Offeror and Trauson.*

Despatch date of this Composite Document and notice of EGM .....	February 7, 2013
Opening date of the Share Offer and the Option Offer .....	February 7, 2013
Date and time of the EGM .....	10:00 a.m. on February 27, 2013
Announcement of results of EGM .....	February 27, 2013
First Closing Date ( <i>Note 1</i> ) .....	March 1, 2013
Latest time for acceptance of the Share Offer and the Option Offer on the first Closing Date ( <i>Note 2</i> ) .....	4:00 p.m. on March 1, 2013
Announcement of the results of the Share Offer and the Option Offer as at the first Closing Date, on the website of the Stock Exchange .....	7:00 p.m. on March 1, 2013
Latest date for posting of remittances to Trauson Shareholders and Trauson Optionholders in respect of valid acceptances received by the first Closing Date, assuming the Share Offer and the Option Offer become, or are declared, unconditional on such date ( <i>Note 3</i> ) .....	March 12, 2013
Latest time and date by which the Share Offer can become or be declared unconditional as to acceptances ( <i>Note 4</i> ) .....	7:00 p.m. on April 8, 2013
Latest time and date by which the Share Offer and the Option Offer can become or be declared unconditional in all respects ( <i>Note 4</i> ) .....	7:00 p.m. on April 29, 2013

*Notes:*

1. Under the terms of the Offers, the Share Offer and the Option Offer will close for acceptances at 4.00 p.m. on March 1, 2013 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. However, the Offeror Parent has undertaken to Luna that the Share Offer will not be closed prior to the 60th day after the date of this Composite Document unless the Share Offer has become or been declared unconditional in all respects before then. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, if the Share Offer is at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Share Offer and the Option Offer are closed to those Trauson Shareholders and those Trauson Optionholders who have not accepted the Share Offer and the Option Offer, respectively.
2. Beneficial owners of Shares who hold their Shares in CCASS directly as an Investor Participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

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## EXPECTED TIMETABLE

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3. Remittances in respect of the consideration for the Shares tendered under the Share Offer will be posted to those Trauson Shareholders accepting the Share Offer as soon as possible, but in any event within seven Business Days from the later of the date of receipt by the Registrar of all the relevant documents to render the acceptance under the Share Offer complete and valid, and the date on which the Offers become or are declared unconditional in all respects.

Remittances in respect of consideration for the Options tendered under the Option Offer will be posted to the office of Trauson Group in Hong Kong at Unit A, 17th Floor, Winbase Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong for collection by those Trauson Optionholders accepting the Option Offer as soon as possible, but in any event within seven Business Days from the later of the date of receipt by the Registrar of all relevant documents to render the acceptance under the Option Offer complete and valid, and the date on which the Offers become or are declared unconditional in all respects.

4. In accordance with the Takeovers Code, when the Share Offer and the Option Offer become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Share Offer and the Option Offer are closed to those Trauson Shareholders and Trauson Optionholders who have not accepted the Share Offer and Option Offer, respectively. In accordance with the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7.00 p.m. on the 60th day after the day this Composite Document was posted. Accordingly, unless the Share Offer has previously become unconditional as to acceptances, the Share Offer and the Option Offer will lapse on April 8, 2013 unless extended with the consent of the Executive. If the Share Offer becomes or is declared unconditional as to acceptances, the Offeror may declare the Share Offer and the Option Offer open for acceptances (i) up to the date that is four months from the day this Composite Document was posted or (ii) if the Offeror has by that time become entitled to exercise compulsory acquisition rights, until any such later date as the Offeror may choose to close the Share Offer and the Option Offer in accordance with the Takeovers Code.

**All time references contained in this Composite Document are to Hong Kong time.**

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## IMPORTANT NOTICE

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**The Option Offer is conditional on the Share Offer becoming or being declared unconditional in all respects and will remain open for so long as the Share Offer remains open for acceptance.**

**NOTICE TO US HOLDERS OF SHARES:**

The Offers will not be submitted to the review or registration procedures of any regulator outside of Hong Kong and have not been approved or recommended by any governmental securities regulator. The Offers will be made in the United States pursuant to the Tier 1 exemption from the US tender offer rules provided by Rule 14d-1(c) under the US Exchange Act. Accordingly, the Offers will be governed by disclosure requirements and other regulations and procedures of a non-US country, including with respect to withdrawal rights and offer timetable, which are different from those of the United States.

The Share Offer will be made for the securities of a Cayman company and is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this Composite Document has been prepared in accordance with accounting principles of the Hong Kong Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP.

The receipt of cash pursuant to the Share Offer by a US holder of Shares may be a taxable transaction for US federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each US holder of Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

It may be difficult for US holders of Shares to enforce their rights and claims arising out of the US federal securities laws, since Trauson is located in a country other than the United States, and some or all of its officers and directors may be residents of a country other than the United States. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.

In accordance with normal Hong Kong practice, the Offeror or its nominees, or its brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, other than pursuant to the Share Offer, before or during the period in which the Share Offer remains open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be reported to the SFC and will be available on the SFC website at <http://www.sfc.hk/>.

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## **IMPORTANT NOTICE**

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### **NOTICE TO HOLDERS OUTSIDE OF HONG KONG AND THE UNITED STATES:**

The making and implementation of the Share Offer to holders of Shares and the Option Offer to Trauson Optionholders who are not resident in Hong Kong or the United States may be subject to the laws of the relevant jurisdictions in which such holders are located. Such holders should inform themselves about and observe any applicable legal or regulatory requirements.

For further discussion, please refer to the section headed “General matters relating to the Offers – Availability of the Offers” of the letter from Barclays in this Composite Document.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements.

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## DEFINITIONS

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*In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise.*

“Announcement”	means the joint announcement issued by the Offeror Parent and Trauson on January 17, 2013 in relation to the Offers;
“associates”	has the meaning ascribed to it in the Takeovers Code;
“Barclays”	means Barclays Capital Asia Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the exclusive financial adviser to the Offeror Group in relation to the Offers;
“Business Day”	means a day on which the Stock Exchange is open for the transaction of business;
“Cayman Islands Companies Law”	means the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC;
“Chairman”	Mr. Qian Fu Qing, the chairman, chief executive officer and an executive director of Trauson and the spouse of Ms. Xu;
“Chuangyi”	江蘇創億醫療器械有限公司(Jiangsu Chuangyi Medical Instrument Co., Ltd.), a company established under the laws of the PRC and a wholly-owned subsidiary of Trauson;
“Closing Date”	means the first closing date of the Share Offer and the Option Offer, being March 1, 2013, or any subsequent closing date as may be announced by the Offeror and approved by the Executive;

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## DEFINITIONS

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“Completion”	means the completion of the sale and purchase of the Shares held by Luna pursuant to the Share Offer;
“Composite Document”	means this document, comprising the Offer Document and the Response Document and related Appendices thereto;
“Concert Parties”	means parties acting in concert with the Offeror and the Offeror Parent as determined in accordance with the Takeovers Code;
“Conditions”	means the conditions of the Share Offer, as set out under the section headed “Conditions to the Share Offer” of the letter from Barclays in this Composite Document;
“Consent(s)”	means any consent, approval, authorisation, qualification, waiver, permit, grant, franchise, concession, agreement, licence, exemption or order of, registration, certificate, declaration or permission from, or filing with, or report or notice to, any Relevant Authority(ies), including those required under or in relation to any concession rights or licences granted by the Relevant Authority(ies) to the Trauson Group to carry out its operations, whether under applicable laws or regulations, any agreement or arrangement with such Relevant Authority(ies), or otherwise;
“December 31, 2011 Net Asset Value Per Share”	means the net asset value per share of HK\$1.66 being calculated by dividing the total net asset value of Trauson as stated in the audited consolidated financial statements of Trauson for the financial year ended December 31, 2011 by the total number of Shares in issue as of December 31, 2011 (HK\$/RMB exchange rate: 1.2311);
“EGM”	means the extraordinary general meeting of Trauson to be convened on Wednesday, February 27, 2013 at 10:00 a.m. to consider and, if thought fit, approve the ordinary resolution in respect of the Service Agreements;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Forms of Acceptance”	means the <b>WHITE</b> Form of Share Offer Acceptance and the <b>PINK</b> Form of Option Offer Acceptance, and “Form of Acceptance” shall mean any one of them;
“HK\$”	means Hong Kong dollar(s), the lawful currency of Hong Kong;



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## DEFINITIONS

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“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“HKSCC Nominees”	means HKSCC Nominees Limited;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means an independent committee of Trauson Board comprising all the non-executive directors of Trauson other than Ms. Xu, namely Mr. Wang Chong Guang, Charles, Mr. Chan Yuk Tong, Dr. Lu Bing Heng and Mr. Zhao Zi Lin;
“Independent Financial Adviser” or “Somerley”	means Somerley Limited, the independent financial adviser to the Independent Board Committee in connection with the Offers and the Service Agreements. Somerley is a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO;
“Independent Trauson Shareholders”	means Trauson Shareholders other than (i) Luna, its associates and parties acting in concert with any of them; (ii) the Offeror, the Offeror Parent and their respective Concert Parties; and (iii) those who are involved in or interested in the Service Agreements;
“Investor Participant”	means the person admitted to participate in CCASS as investor participants;
“Irrevocable Undertaking”	means the irrevocable undertaking dated January 17, 2013 given by Luna, the Chairman and Ms. Xu in favour of the Offeror Parent;
“Last Trading Date”	means January 7, 2013, being the last full trading day prior to the suspension of trading in the Shares on the Stock Exchange pending the publication of the Announcement;
“Latest Practicable Date”	February 4, 2013, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information for inclusion in this Composite Document;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Luna”	means Luna Group Holdings Limited, a company solely and beneficially owned by Ms. Xu that holds 477,945,000 Shares, representing approximately 61.72% of the issued share capital of Trauson, as at the date of this Composite Document;

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## DEFINITIONS

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“Main Board”	means the main board on the Stock Exchange;
“Mr. Qian Xiao Jin”	Mr. Qian Xiao Jin, the vice president of Trauson and a son of the Chairman and Ms. Xu;
“Ms. Xu”	Ms. Xu Yan Hua, a non-executive director of Trauson and a substantial shareholder of Trauson interested in the Relevant Shares, the sole shareholder of Luna and the spouse of the Chairman;
“Offer Document”	means the document required to be issued by, or on behalf of, the Offeror to all Trauson Shareholders and Trauson Optionholders in accordance with the Takeovers Code containing, <i>inter alia</i> , details of the Offers and the terms and conditions of the Offers and forming part of this Composite Document;
“Offer Period”	has the meaning given to it in the Takeovers Code;
“Offeror”	means Stryker International Acquisitions B.V.;
“Offeror Directors”	means the directors of the Offeror;
“Offeror Group”	means the Offeror Parent and the Offeror;
“Offeror Parent”	means Stryker Corporation;
“Offeror Parent Directors”	means the directors of the Offeror Parent;
“Offers”	means the Share Offer and the Option Offer made by Barclays on behalf of the Offeror;
“Option Offer”	means the proposal made by the Offeror in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in accordance with the terms and conditions set out in this Composite Document;
“Options”	means the 22,830,000 outstanding share options granted by Trauson pursuant to the Share Option Scheme;
“PINK Form of Option Offer Acceptance”	means the form of acceptance in respect of the Option Offer accompanying this Composite Document;
“PRC”	means the People’s Republic of China (excluding Hong Kong, Macau and Taiwan);
“Property Purchase Amount”	means an amount equal to RMB40,510,000 in respect of the failed completion of the purchase of certain premises in Beijing by the Trauson Group;

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## DEFINITIONS

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“Registrar”	means Computershare Hong Kong Investor Services Limited;
“Relevant Authority(ies)”	means any government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution;
“Relevant Period”	the period from July 17, 2012, being the date six months before the date of the Announcement, up to and including the Latest Practicable Date;
“Relevant Shares”	means 477,945,000 Shares held by Luna as at the date of the Irrevocable Undertaking, representing approximately 61.72% of the issued share capital of Trauson, as at the date of this Composite Document;
“Response Document”	means the document required to be issued by Trauson to Trauson Shareholders and Trauson Optionholders in accordance with the Takeovers Code containing, inter alia, the board circular of Trauson and forming part of this Composite Document;
“Service Agreements”	means the service agreements dated January 17, 2013 entered into between Stryker Singapore Pte Ltd, a subsidiary of the Offeror Parent, and each of the Chairman and Mr. Qian Xiao Jin;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinances (Chapter 571 of the laws of Hong Kong);
“Share Offer”	means the voluntary conditional cash offer by the Offeror to acquire all of the outstanding Shares in accordance with the terms and conditions set out in this Composite Document;
“Share Offer Price”	means the price at which the Share Offer is being made in this Composite Document, being HK\$7.50 per Share;
“Share Option Scheme”	means the share option scheme adopted by Trauson on May 27, 2011, as amended from time to time;
“Shares”	means ordinary shares of HK\$0.10 each in the share capital of Trauson;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;

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## DEFINITIONS

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“subsidiaries”	has the meaning ascribed to it in the Listing Rules;
“Takeovers Code”	means The Codes on Takeovers and Mergers and Share Repurchases published by the SFC;
“Trauson”	means Trauson Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 325);
“Trauson Board”	means the board of directors of Trauson;
“Trauson Group”	means Trauson and its subsidiaries;
“Trauson Directors”	means the directors of Trauson;
“Trauson Optionholders”	means the holders of the Options;
“Trauson Shareholders”	means registered holders for the time being of the Shares;
“UBS”	means UBS AG, acting through its Hong Kong branch, an institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the exclusive financial adviser to Trauson in relation to the Offers;
“Unconditional Date”	means the date on which the Offers become or are declared unconditional in all respects;
“US Exchange Act”	means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;
“US GAAP”	means the generally accepted accounting principles in the United States;
“US\$”	means United States dollars, the lawful currency of the United States of America;
“WHITE Form of Share Offer Acceptance”	means the form of acceptance in respect of the Share Offer accompanying this Composite Document; and

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## DEFINITIONS

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“%” means per cent.

*For the purposes of this Composite Document, the exchange rate of US\$1.00 = HK\$7.75245 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at the above rates or at any other rates or at all.*

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## LETTER FROM BARCLAYS

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February 7, 2013

*To Independent Trauson Shareholders and Trauson Optionholders*

Dear Sir or Madam,

### **1. INTRODUCTION**

On January 17, 2013, the Offeror Parent and Trauson jointly announced that Barclays would, on behalf of the Offeror Parent, make a voluntary conditional cash offer (i) to acquire all of the outstanding Shares in the issued share capital of Trauson; and (ii) to cancel all the outstanding Options. As set out in such announcement, the Offeror Parent had reserved its right to make the Offers through one or more of its wholly-owned subsidiaries. The Offeror Parent has decided to procure the Offeror, one of its wholly-owned subsidiaries, to make the Offers.

This letter forms part of this Composite Document and sets out certain background information of the Offeror Group, the reasons for making the Offers and the intentions of the Offeror Group in relation to Trauson Group. The terms of the Offers are set out in this letter, Appendix I to this Composite Document and in the accompanying Forms of Acceptance.

Your attention is also drawn to the letter from the Trauson Board on pages 28 to 33, the letter from the Independent Board Committee on pages 34 to 35 and the letter from the Independent Financial Adviser on pages 36 to 68 in this Composite Document.

### **2. THE OFFERS**

Barclays is, on behalf of the Offeror, making the Offers on the following basis:

#### **The Share Offer:**

##### *Consideration of the Share Offer*

For each Share ..... HK\$7.50 in cash

The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

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## LETTER FROM BARCLAYS

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### The Option Offer:

(A) *In respect of Options with an exercise price of HK\$2.17:*

For cancellation of each such Option ..... HK\$5.33 in cash

(B) *In respect of Options with an exercise price of HK\$3.06:*

For cancellation of each such Option ..... HK\$4.44 in cash

(C) *In respect of Options with an exercise price of HK\$2.852:*

For cancellation of each such Option ..... HK\$4.648 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

### Comparisons of value

The value which the Share Offer attributes to each Share represents:

	<b>Share price of Trauson HK\$</b>	<b>Premium/(Discount) of the offer price to the share price %</b>
Closing price on the Last Trading Date	4.50	66.7
Closing price at the time of suspension of trading of the Shares	5.16	45.3
Average closing price for the last 5 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	4.22	77.6
Average closing price for the last 10 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	4.11	82.5
Average closing price for the last 20 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	4.10	82.9

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## LETTER FROM BARCLAYS

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	<b>Share price of Trauson HK\$</b>	<b>Premium/(Discount) of the offer price to the share price %</b>
Average closing price for the last 30 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	4.13	81.7
Average closing price for the last 60 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	4.08	83.8
Closing price on the Latest Practicable Date	7.35	2.0

The value which the Share Offer attributes to each Share represents a premium of approximately 352.4% over the December 31, 2011 Net Asset Value Per Share.

### **Highest and lowest Share prices**

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$7.35 on February 4, 2013 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$2.68 on August 22, 2012.

### **Settlement of consideration**

Settlement of consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within seven Business Days of the date of receipt of a complete and valid acceptance in respect of the Offers or of the Unconditional Date, whichever is the later.

No fractions of a cent will be payable and the amount of cash consideration payable to a Trauson Shareholder or Trauson Optionholder (as the case may be) who accepts the Share Offer or the Option Offer (as the case may be) will be rounded down to the nearest cent.



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## LETTER FROM BARCLAYS

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### **Value of the Offers**

As at the Latest Practicable Date, there are 774,328,625 Shares in issue. On the basis of the Share Offer Price of HK\$7.50 per Share and assuming that no Options are exercised before the close of the Share Offer, the Share Offer is valued at approximately HK\$5,807,464,688.

As at the Latest Practicable Date, there are a total of 22,830,000 Options outstanding entitling Trauson Optionholders to subscribe for, pursuant to the Share Option Scheme, an aggregate of:

- 14,030,000 Shares at an exercise price of HK\$2.17 per Share;
- 4,000,000 Shares at an exercise price of HK\$3.06 per Share; and
- 4,800,000 Shares at an exercise price of HK\$2.852 per Share.

Assuming none of the outstanding Options are exercised prior to the close of the Share Offer, the total amount required to satisfy the cancellation of all the outstanding Options is HK\$114,850,300.

Based on the above and assuming that no Options are exercised prior to the close of the Offers, the Offers are valued at approximately HK\$5,922,314,988 in aggregate.

In the event that all the Options are exercised in full by Trauson Optionholders prior to the Closing Date and the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Options), Trauson will have to issue 22,830,000 new Shares, representing approximately 2.86% of the enlarged issued share capital of Trauson. The maximum value of the Share Offer will be increased to approximately HK\$5,978,689,688 as a result thereof. In that case, no amount will be payable by the Offeror under the Option Offer. Accordingly, the Offers are valued at approximately HK\$5,978,689,688 in aggregate on a fully-diluted basis.

### **Confirmation of financial resources**

Assuming that all the outstanding Options are exercised before the close of the Offers and that the Share Offer is accepted in full, the financial resources required by the Offeror to satisfy its obligations in respect of the Offers amount to approximately HK\$5,978,689,688.

Assuming that no Option is exercised before the close of the Offers and that the Offers are accepted in full, the financial resources required by the Offeror to satisfy its obligations in respect of the Offers amount to approximately HK\$5,922,314,988.

The Offeror intends to finance the consideration payable by the Offeror under the Offers from the internal cash resources of the Offeror Group and if required, debt financing provided by, among others, Barclays (in its capacity as one of the lenders in the syndicate to the Offeror Parent) to the Offeror Parent and its wholly-owned subsidiaries. Barclays is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offers.

The payment of interest on, repayment of or security for any existing liability (contingent or otherwise) of the Offeror Group will not depend on the business of Trauson to any significant extent.

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## LETTER FROM BARCLAYS

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### 3. CONDITIONS TO THE SHARE OFFER

The Share Offer is subject to the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares (which shall include all the Shares held by Luna) which will result in the Offeror holding at least 90% of the voting rights in Trauson;
- (b) (i) all Consents as are necessary for the consummation of the transactions contemplated in the Irrevocable Undertaking and the Offers and in connection with, including, without limitation, any change in the direct or indirect shareholder(s) or ultimate controlling shareholder(s) of any member of the Trauson Group that has been granted the concession rights or licences to carry out its operations having been obtained and remaining in full force and effect without variation from all Relevant Authority(ies) and all conditions (if any) to such Consents having been fulfilled; (ii) each member of the Trauson Group possessing or having obtained all licences and permits from the Relevant Authority(ies) that are necessary to carry on its business; and (iii) all mandatory consents from third parties having been obtained for the acquisition of the Shares under the Offers;
- (c) no event having occurred which would make the Offers or the acquisition of any of the Shares under the Offers void, unenforceable, illegal or prohibit implementation of the Offers;
- (d) no Relevant Authority(ies) in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect to the Offers or the transactions contemplated under the Irrevocable Undertaking (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers and the transactions contemplated under the Irrevocable Undertaking);
- (e) since the date of the last audited consolidated financial statements of Trauson, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general affairs, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, current or future consolidated financial position, shareholders' equity or results of operations of Trauson or any member of Trauson Group, whether or not arising in the ordinary course of business;
- (f) no dividend or other distribution (whether in cash or in kind) during the Offer Period having been declared, made or paid by Trauson to Trauson Shareholders; and

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## LETTER FROM BARCLAYS

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- (g) (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the terms of the Service Agreements are fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Trauson Shareholders at an EGM of Trauson to approve the terms of the Service Agreements.

The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions set out above save that (i) Condition (a) may only be waived if the Offeror receives acceptances in respect of the Share Offer which would result in the Offeror and persons acting in concert with it holding more than 50% of the voting rights in Trauson; and (ii) Conditions (c) and (d) cannot be waived.

The Offeror Parent has undertaken to Luna that it will not close the Share Offer prior to the 60th day after the date of this Composite Document unless the Share Offer has become or has been declared unconditional in all respects before then.

The Share Offer will not proceed if the Offeror invokes any or all of the Conditions. However, pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions so as not to proceed with the Share Offer if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Share Offer.

**WARNING: Trauson Shareholders, Trauson Optionholders and potential investors should be aware that the Share Offer is subject to the satisfaction or waiver (where applicable) of the Conditions and thus the Offers may or may not become unconditional. Trauson Shareholders, Trauson Optionholders and potential investors should therefore exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

#### 4. IRREVOCABLE UNDERTAKING

**Date:** January 17, 2013

**Parties:** Luna, the Chairman and Ms. Xu

**Consideration:** Approximately HK\$3,584,587,500 based on the Share Offer Price of HK\$7.50 per Share

##### **Undertaking to accept the Share Offer**

Luna, the Chairman and Ms. Xu executed an Irrevocable Undertaking in favour of the Offeror Parent, pursuant to which each of Luna, the Chairman and Ms. Xu has irrevocably undertaken to the Offeror Parent to accept, or procure the acceptance of, the Share Offer in respect of the Relevant Shares as soon as possible and in any event by 4:00 p.m. on the Business Day after the date of this Composite Document.

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## LETTER FROM BARCLAYS

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Prior to the closing, lapsing or withdrawal of the Share Offer, each of Luna, the Chairman and Ms. Xu has undertaken not to, among other things, (i) sell, transfer, charge, encumber, grant any option over (or cause the same to be done) or otherwise dispose of any interest in the Relevant Shares (other than to the Offeror Parent); (ii) acquire, directly or indirectly, any additional shares, securities or other interests of Trauson; or (iii) take any action or enter into any agreement or arrangement, including through its representation on the Trauson Board (and whether or not legally binding or subject to any condition or which is to take effect after the Share Offer closes or lapses), or permit any agreement or arrangement to be entered into or authorize or incur any obligation which, (x) in relation to the Relevant Shares, would or might restrict or impede its accepting the Offers or (y) would otherwise be prejudicial to the successful outcome of the Share Offer.

### **No withdrawal**

Each of Luna, the Chairman and Ms. Xu has irrevocably undertaken that it will not and will procure that Luna will not, withdraw any acceptance of the Share Offer in respect of the Relevant Shares.

### **Escrow arrangement**

The Irrevocable Undertaking further provides that, at Completion, a portion of the consideration to be paid to Luna for the acceptance of the Share Offer in the sum of HK\$390 million will be deposited into an escrow account for a period of 18 months from the date of Completion (unless there are outstanding claims under the Irrevocable Undertaking the determination of which remains pending in which case the period shall be extended until such claims are either settled or are finally determined) and be released in the following manner:

- (1) **Release for shortfall in cash.** Following the Unconditional Date, the Offeror Parent will appoint an external auditor to assess the cash balance of Trauson Group as at the later of (a) the Unconditional Date and (b) the date on which the Chairman resigns from the Trauson Board. If such cash balance is less than the minimum cash balance as agreed by the parties under the Irrevocable Undertaking, the Offeror may deduct such difference from the escrow amount. If such cash balance is not less than the minimum cash balance, an amount equal to HK\$78 million will be released from the escrow account to Luna;
- (2) **Refund of Property Purchase Amount.** If Trauson Group receives any or all of the Property Purchase Amount within 18 months from the date of Completion, an equivalent amount will be released from the escrow account to Luna;
- (3) **Others.** An amount equal to HK\$128.7 million less certain deductions made or earmarked pending final determination pursuant to the terms of the Irrevocable Undertaking will be released and transferred to Luna after 12 months from the date of Completion. Upon expiry of the period that is 18 months from the date of Completion, the remaining balance in the escrow account less certain deductions made or earmarked pending final determination pursuant to the terms of the Irrevocable Undertaking shall be released to Luna.

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## LETTER FROM BARCLAYS

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The Irrevocable Undertaking will be terminated and the obligations of Luna, the Chairman and Ms. Xu thereunder shall forthwith lapse and terminate if (i) the Offeror Parent fails to despatch this Composite Document on the date of this Composite Document; (ii) the Share Offer is otherwise not made; or (iii) the Share Offer lapses.

### 5. SERVICE AGREEMENTS

#### **Date**

January 17, 2013

#### **Parties**

1. Stryker Singapore Pte Ltd, a subsidiary of the Offeror Parent
2. Chairman
3. Mr. Qian Xiao Jin

#### **Principal terms of the Service Agreements**

Subject to the Share Offer becoming or being declared unconditional in all respects, Stryker Singapore Pte Ltd agrees to engage each of the Chairman and Mr. Qian Xiao Jin as an independent service provider to provide certain services to the Offeror Parent and Trauson Group for a period of three years (the “**Service Term**”). In addition, the Chairman, Mr. Qian Xiao Jin, Ms. Xu and Luna have provided certain non-competition and non-solicitation undertakings (as disclosed in the section “Non-competition and non-solicitation undertakings” below). These services include, among others:

With respect to the Chairman:

- cooperating with Trauson Group and the Offeror Parent in the post-Completion transition period to assist in Trauson Group’s integration with the Offeror Parent;
- advising on Trauson Group’s manufacturing operations and the transfer of the instrumentation manufacturing business;
- providing assistance with transitioning relationships with distributors, suppliers, consultants, experts in the industry, local government agencies and industry associations;
- providing assistance with transitioning relationships with key internal stakeholders and the retention of key employees of Trauson Group;
- providing advice on new product development and the reconfiguration of existing products of Trauson Group;

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## LETTER FROM BARCLAYS

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- providing assistance and advice on the management of distributors, the tendering process and marketing strategies;
- providing assistance and advice on local regulatory strategy and relationships with local regulatory authorities;
- providing assistance in respect of the maintenance of the high and new technology enterprise and other tax preferred status of Trauson Group and any new applications for such status;
- providing assistance with the growth of Trauson Group's business outside of China; and
- any other services the Offeror Parent may request the Chairman to perform from time to time that are reasonably within the scope of the Chairman's capabilities and are related to the business of Trauson Group.

With respect to Mr. Qian Xiao Jin:

- providing assistance to Trauson Group in the recovery of the Property Purchase Amount;
- providing assistance to Trauson Group in respect of its business outside of China;
- cooperating in the post-Completion integration process and in particular, co-chairing the integration committee of Trauson Group to support the integration efforts and key workstreams;
- coordinating information exchange between the Offeror Parent and Trauson Group, particularly involving potential alliances and acquisitions in China;
- providing assistance to Trauson Group in identifying potential business development and growth opportunities, whether inside or outside of China;
- providing assistance with transitioning relationships with key internal stakeholders and the retention of key employees; and
- any other services the Offeror Parent may request Mr. Qian Xiao Jin to perform from time to time that are reasonably within the scope of Mr. Qian Xiao Jin's capabilities and are related to the business of Trauson Group.

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## LETTER FROM BARCLAYS

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In consideration for providing the above services, the following service fees will be paid:

- Chairman: US\$1.68 million per annum for three years from the Unconditional Date payable on a monthly basis; and
- Mr. Qian Xiao Jin: US\$320,000 per annum for three years from the Unconditional Date payable on a monthly basis.

The current annual remunerations of the Chairman and Mr. Qian Xiao Jin are approximately US\$664,000 and US\$130,600, respectively. In addition, in 2012, Mr. Qian Xiao Jin was granted 3,000,000 Options at an exercise price of HK\$2.852 per Share. Based on the terms of the Option Offer, these Options are valued at approximately HK\$13.9 million.

### *Non-competition and non-solicitation undertakings*

Subject to the completion of the Offers, each of Luna, the Chairman, Ms. Xu and Mr. Qian Xiao Jin has unconditionally and irrevocably undertaken to the Offeror Parent that for a duration of five years from the Unconditional Date (the “**Non-Compete Period**”), they shall not and shall procure that certain restricted persons shall not, directly or indirectly, among others: (i) carry on, cooperate with or provide any financial assistance to any person, be engaged or employed by or concerned or be interested in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise) economically or otherwise in any manner in any business (with certain limited exceptions) that (x) involves the manufacture, production, sale and/or distribution of orthopaedic products or competes or may so compete directly or indirectly with any business of Trauson Group in the PRC, Hong Kong, Macau, Singapore and Malaysia; and (y) involves the commercialization, sale, distribution and/or service of orthopaedic products or other products that competes or may so compete directly or indirectly with any business of Trauson Group in Brazil, Venezuela, India and Russia; or (ii) solicit, hire or encourage or seek to encourage any director, officer, employee or distributor of any member of the Offeror Parent’s group to leave his/her current employment or consultancy or to breach the terms of their contract for services; and (iii) use or display any trademark, business name or mark, domain name or any website containing certain words and marks which are relevant to Trauson’s existing businesses.

### *Opinion of Independent Financial Adviser and approval of Independent Trauson Shareholders*

As the Service Agreements have been entered into by the Chairman and Mr. Qian Xiao Jin and are not being offered to all Trauson Shareholders, the Service Agreements require the consent of the Executive under Note 4 to Rule 25 of the Takeovers Code. The consent, if granted, will be conditional on the independent financial adviser advising the Independent Board Committee confirming that the terms of the Service Agreements are fair and reasonable (which it has so advised), and the passing of an ordinary resolution by the Independent Trauson Shareholders at the EGM to approve the terms of the Service Agreements.

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## LETTER FROM BARCLAYS

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Accordingly, as set out in Condition (g), the Offers are subject to (i) the receipt of an opinion from the independent financial adviser of Trauson confirming that the terms of Service Agreements are fair and reasonable (which has been received), and (ii) the passing of an ordinary resolution by the Independent Trauson Shareholders at the EGM to approve the terms of the Service Agreements.

As set out in the letter from the Independent Financial Adviser in this Composite Document, the Independent Financial Adviser considers that the terms of the Service Agreements are fair and reasonable so far as the Independent Trauson Shareholders are concerned.

### **6. INFORMATION OF THE OFFEROR PARENT**

The Offeror Parent was incorporated in Michigan in 1946 as the successor company to a business founded in 1941 by Dr. Homer H. Stryker, a prominent orthopaedic surgeon and the inventor of several orthopaedic products. The common stocks of the Offeror Parent are listed on the New York Stock Exchange.

The Offeror Parent is one of the world's leading medical technology companies with 2011 audited revenues of US\$8,307 million and audited net earnings of US\$1,345 million, and is dedicated to helping healthcare professionals perform their jobs more efficiently while enhancing patient care. The Offeror Parent offers a diverse array of innovative medical technologies including reconstructive implants, medical and surgical equipment, and neurotechnology and spine products to help people lead more active and more satisfying lives.

### **7. INFORMATION OF THE OFFEROR**

The Offeror is indirectly, wholly-owned by the Offeror Parent. The Offeror is a newly incorporated private limited liability company existing under the laws of the Netherlands established for the purpose of holding the Shares and the shares of other companies that the group of the Offeror Parent may acquire in the future.

### **8. REASONS FOR THE OFFERS AND THE EXPECTED BENEFITS**

The Offeror Parent Directors believe that the acquisition of Trauson by the Offeror Group will allow the Offeror Parent to broaden its presence in China and develop a value segment platform for emerging markets through a well-established brand. The acquisition of a leading player in the Chinese trauma market and spine market demonstrates the Offeror Parent's commitment to strengthen its global presence through Trauson's research and development expertise, manufacturing capabilities and its strong distribution network. Also, the acquisition of Trauson represents an opportunity for the Offeror Parent to further grow in China. The Offeror Parent believes that the acquisition provides significant synergy opportunities and result in a business that will deliver more benefits and value than could be accomplished by either company alone.

The Offeror Parent Directors believe that Trauson, which has grown rapidly over the past several years, would benefit from the technical, international regulatory, financial and management support that the Offeror Parent can provide. In particular the Offeror Parent Directors believe that an acquisition by the Offeror Group will accelerate the development of Trauson's brand, its business model as well



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## LETTER FROM BARCLAYS

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as its market position, both in China and other international markets, in the long-term. The Offeror Parent Directors also believe that the Offeror Parent's institutional knowledge in product design and manufacturing will also enable Trauson to improve and diversify its product development in order to better serve its Chinese client base while enhancing its ability to register and sell its products in more markets internationally. Additionally, given the global reach and scale of the Offeror Parent's business, distribution abilities and operations outside of China, the Offeror Parent Directors believe that the acquisition of Trauson by the Offeror Group would give Trauson greater access to, and improve its ability to grow, business and sales globally.

### **9. INTENTIONS OF THE OFFEROR GROUP IN RELATION TO THE TRAUSON GROUP**

Following completion of the Offers, the Offeror Group will review the businesses of Trauson, including among others, Trauson's relationships with its distributors and customers, portfolio of products and product designs, assets, corporate and organizational structure, capitalization, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, following the completion of the Offers in order to best organize and optimize the businesses and operations of Trauson and to integrate the same within the group of the Offeror Parent. The Offeror Group intends that Trauson will continue to operate its business in its current state. Other than certain changes to the composition of Trauson Board as set out under the section headed "Proposed changes to the composition of Trauson Board" below, the Offeror Group does not intend to institute any major changes to Trauson's current business and operation (including redeployment of the fixed assets of Trauson Group and employee changes within Trauson Group). However, the Offeror Group reserves the right to make any changes that it deems necessary or appropriate to Trauson's businesses and operations to better integrate, generate maximum synergy and exploit full economies of scale with the other operations of the group of the Offeror Parent.

### **10. PROPOSED CHANGES TO THE COMPOSITION OF TRAUSON BOARD**

Pursuant to the Irrevocable Undertaking, the Chairman and Ms. Xu have undertaken to resign as Trauson Directors upon the Unconditional Date (or as soon as practicable thereafter) and their existing service contracts will be terminated at such time. Mr. Wang Chong Guang Charles will resign as a Trauson Director with effect from the Unconditional Date (or as soon as practicable thereafter) and his service contract will be terminated at such time.

As at the Latest Practicable Date, save as the resignations referred to above, the Offeror or the Offeror Parent has not decided on any other changes to the Trauson Board composition (including its nominees to be appointed to the Trauson Board). Any changes to the Trauson Board composition will be announced by Trauson in due course.

### **11. COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING**

The Offeror intends to exercise the right under section 88 of the Cayman Islands Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Share Offer if it, within four months of the posting of this Composite Document, acquires not less than 90% of the Shares. On completion of the compulsory acquisition, if exercised, Trauson will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. As soon as reasonably practicable after such

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## LETTER FROM BARCLAYS

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application for the withdrawal of the listing of the Shares from the Stock Exchange has been made, Trauson will give Trauson Shareholders notice of the proposed withdrawal of the listing by way of an announcement pursuant to Rule 6.15 of the Listing Rules.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise Trauson by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Offeror and its Concert Parties during the four months after posting of this Composite Document total 90% or more of the disinterested Shares (as defined in the Takeovers Code).

### **WARNING:**

**If the level of acceptances of the Share Offer reaches the prescribed level under the Cayman Islands Companies Law and the requirements of Rule 2.11 of the Takeovers Code are satisfied, dealings in the Shares will be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.**

## **12. MAINTAINING THE LISTING/PUBLIC FLOAT**

In the event that the Offeror does not effect the compulsory acquisition set out above but proceeds with the Offers (whether by reason of waiving the Condition (a) or otherwise), the Offeror will, following the closing of the Offers, take appropriate steps (which may include disposing of some of its Shares and/or procuring Trauson to issue new Shares) to ensure that not less than 25% of the Shares will be held by the public in compliance with the Listing Rules.

If, at the close of the Offers, less than 25% of the Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares, or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange may exercise its discretion to suspend dealings in the Shares. In this regard, it should be noted that, upon closing of the Offers, there may be an insufficient public float for the Shares and therefore trading in the Shares may be suspended until a prescribed level of public float is attained.

## **13. GENERAL MATTERS RELATING TO THE OFFERS**

### **Availability of the Offers**

The Offers are being made available to all Trauson Shareholders and Trauson Optionholders including those who are not resident in Hong Kong. The availability of the Offers to persons who are not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements and restrictions in their own jurisdictions, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with the other necessary formalities and the payment of any issue, transfer or other fares due in such jurisdiction.

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## LETTER FROM BARCLAYS

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Acceptance of the Share Offer by any overseas Trauson Shareholders or acceptance of the Option Offer by any overseas Trauson Optionholders will constitute a warranty by such overseas Trauson Shareholders or overseas Trauson Optionholders (as the case may be) that they (i) are permitted under all applicable laws to receive and accept the Share Offer or the Option Offer (as applicable) and any revision thereof, (ii) have observed all applicable laws and regulations of the relevant jurisdictions in connection with such acceptance, including obtaining any government or other consent which may be required and (iii) have complied with any other necessary formality and have paid any issue, transfer or other taxes due in such jurisdiction(s) and that such acceptance shall be valid and binding in accordance with all applicable laws.

The Offers will not be submitted to the review or registration procedures of any regulator outside of Hong Kong and have not been approved or recommended by any governmental securities regulator. The Offers will be made in the United States pursuant to the Tier 1 exemption from the US tender offer rules provided by Rule 14d-1(c) under the US Exchange Act. Accordingly, the Offers will be governed by disclosure requirements and other regulation and procedures of a non-US country, including with respect to withdrawal rights and offer timetable, which are different from those of the United States.

The Share Offer will be made for the securities of a Cayman company and is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this Composite Document has been prepared in accordance with accounting principles of the Hong Kong Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP.

The receipt of cash pursuant to the Share Offer by a US holder of Shares may be a taxable transaction for US federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each US holder of Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

In accordance with normal Hong Kong practice, the Offeror or its nominees, or its brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, other than pursuant to the Share Offer, before or during the period in which the Share Offer remains open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be reported to the SFC and will be available on the SFC website at <http://www.sfc.hk/>.

The Offeror will comply with the requirements of the Takeovers Code in respect of overseas Trauson Shareholders and overseas Trauson Optionholders.

### **Further agreements or arrangements**

As at the Latest Practicable Date:

- (i) save as disclosed in the section headed “Irrevocable Undertaking” in this letter, the Offeror, the Offeror Parent and their respective Concert Parties have not received any other irrevocable commitment to accept the Offers;

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## LETTER FROM BARCLAYS

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- (ii) the Offeror, the Offeror Parent and their respective Concert Parties do not hold, own or control any convertible securities, warrants or options in Trauson;
- (iii) there is no outstanding derivative in respect of the securities in Trauson which has been entered into by the Offeror, the Offeror Parent or their respective Concert Parties (excluding exempt principal traders);
- (iv) save as disclosed in the section headed “Irrevocable Undertaking” in this letter, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror Parent, the Offeror or Trauson and which might be material to the Offers;
- (v) save as disclosed in the sections headed “Conditions to the Share Offer” and “Irrevocable Undertaking” of this letter, there is no agreement or arrangement to which the Offeror Parent or the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the Offers; and
- (vi) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Trauson which the Offeror, the Offeror Parent or their respective Concert Parties have borrowed or lent.

### **Completion of the Offers**

Subject to the Offeror Parent’s undertaking to Luna that it will not close the Share Offer prior to the 60th day after the date of this Composite Document unless the Share Offer has become or has been declared unconditional in all respects before then, if any of the Conditions is not satisfied (or not waived where applicable) on or before the Closing Date, the Offers will lapse. In that case, the Offeror will issue an announcement in relation to the revision, extension, expiry or unconditionality of the Offers in accordance with the Takeovers Code and the Listing Rules by 7:00 p.m. on the Closing Date. The latest time on which the Offeror can declare the Share Offer unconditional as to acceptances is 7:00 p.m. on April 8, 2013 (or such later date to which the Executive may consent).

If all the Conditions are satisfied (or, if permissible, waived), Trauson Shareholders and Trauson Optionholders will be notified by way of an announcement in accordance with the Takeovers Code and the Listing Rules as soon as practicable thereafter.

### **Acceptance of the Offers**

Acceptance of the Share Offer or the Option Offer by Trauson Shareholders or Trauson Optionholders, respectively, will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Share Offer or Options tendered under the Option Offer (as the case may be) are sold or tendered by Trauson Shareholders or Trauson Optionholders (as the case may be) free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the Closing Date or subsequently becoming attached to it, including, without limitation, in the case of the Shares, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Closing date.

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## LETTER FROM BARCLAYS

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### **Additional information**

Your attention is drawn to the letter from the Trauson Board on pages 28 to 33 of this Composite Document, the letter from the Independent Board Committee on pages 34 to 35 of this Composite Document and the letter from the Independent Financial Adviser on pages 36 to 68 of this Composite Document in relation to their respective recommendations and advice with respect to the Offers and the Service Agreements.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,  
For and on behalf of  
**Barclays Capital Asia Limited**  
**Edward King**  
*Managing Director*

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LETTER FROM THE BOARD OF TRAUSON

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**TRAUSON HOLDINGS COMPANY LIMITED**  
**創生控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 325)

*Executive Directors:*

Mr. Qian Fu Qing  
Mr. Cai Yong

*Non-executive Directors:*

Ms. Xu Yan Hua  
Mr. Wang Chong Guang Charles

*Independent non-executive Directors:*

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

*Registered office:*

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

*Principal place of business  
in Hong Kong:*

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

February 7, 2013

*To Trauson Shareholders and Trauson Optionholders*

Dear Sir or Madam,

**COMPOSITE OFFER AND RESPONSE DOCUMENT**  
**VOLUNTARY CONDITIONAL CASH OFFER BY**  
**BARCLAYS CAPITAL ASIA LIMITED**  
**ON BEHALF OF STRYKER INTERNATIONAL ACQUISITIONS B.V.**  
**TO ACQUIRE ALL OF THE OUTSTANDING SHARES IN**  
**THE ISSUED SHARE CAPITAL OF**  
**TRAUSON HOLDINGS COMPANY LIMITED**  
**AND**  
**TO CANCEL ALL THE OUTSTANDING SHARE OPTIONS**  
**OF TRAUSON HOLDINGS COMPANY LIMITED**

**INTRODUCTION**

On January 17, 2013, Trauson and the Offeror Parent jointly announced that Barclays would, on behalf of the Offeror Parent, make a voluntary conditional cash offer (i) to acquire all of the outstanding Shares in the issued share capital of Trauson and (ii) to cancel all the outstanding Options. As set out in such announcement, the Offeror Parent had reserved its right to make the Offers through one or more of its wholly-owned subsidiaries. The Offeror Parent has decided to procure the Offeror, one of its wholly-owned subsidiaries to make the Offers.

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## LETTER FROM THE BOARD OF TRAUSON

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The Share Offer is conditional on the satisfaction or waiver (if applicable) of a number of Conditions including, but not limited to, (i) an opinion having been received from the independent financial adviser to the Independent Board Committee confirming that the terms of the Service Agreements are fair and reasonable, and (ii) an ordinary resolution by the Independent Trauson Shareholders at the EGM to approve the terms of the Service Agreements having been passed.

Further information on the Service Agreements are set out in the section headed “Service Agreements” in the letter from Barclays in this Composite Document.

The Independent Board Committee, which comprises all the non-executive directors (other than Ms. Xu) namely Mr. Wang Chong Guang Charles, Mr. Chan Yuk Tong, Dr. Lu Bing Heng and Mr. Zhao Zi Lin has been established to consider the Service Agreements and the terms of the Offers, and (i) to advise the Independent Trauson Shareholders as to whether the terms of the Service Agreements are fair and reasonable so far as the Independent Trauson Shareholders are concerned and to make recommendations in respect of voting at the EGM in respect of the Service Agreements and (ii) to advise the Independent Trauson Shareholders and Trauson Optionholders as to whether the terms of the Offers are fair and reasonable so far as the Independent Trauson Shareholders and Trauson Optionholders are concerned and to make recommendations in respect of acceptances or not of the Offers. Given that Ms. Xu is (i) the sole shareholder of Luna, being the holder of the Relevant Shares, and in respect of which she has given the Irrevocable Undertaking to the Offeror Parent; and (ii) the spouse of the Chairman and the mother of Mr. Qian Xiao Jin, both of whom are parties to the Service Agreements, Ms. Xu is considered to have an interest in the Offers and thus will not act as a member of the Independent Board Committee.

The purpose of this Composite Document of which this letter forms part is to provide you with, among other matters, the terms of the Offers, information relating to the Trauson Group, the Offeror Parent and the Offeror as well as to set out (i) the letter from the Independent Board Committee containing its recommendations to Independent Trauson Shareholders in respect of the Share Offer and the Service Agreements; and its recommendations to the Trauson Optionholders in respect of the Option Offer; and (ii) the letter from Somerley containing its advice to the Independent Board Committee in respect of the Offers and to opine on the fairness and reasonableness of the Service Agreements.

### THE OFFERS

#### Principal terms of the Offers

As disclosed in the letter from Barclays in this Composite Document, Barclays is, on behalf of the Offeror, making the Offers on the following basis:

#### The Share Offer:

##### *Consideration of the Share Offer*

For each Share . . . . . HK\$7.50 in cash

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## LETTER FROM THE BOARD OF TRAUSON

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The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the rights to received in full all dividends and other distributions, if any, declared, made, or paid on or after the Closing Date.

### **The Option Offer:**

(A) *In respect of Options with an exercise price of HK\$2.17:*

For cancellation of each such Option. . . . . HK\$5.33 in cash

(B) *In respect of Options with an exercise price of HK\$3.06:*

For cancellation of each such Option. . . . . HK\$4.44 in cash

(C) *In respect of Options with an exercise price of HK\$2.852:*

For cancellation of each such Option. . . . . HK\$4.648 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled or renounced.

### **CONDITIONS OF THE SHARE OFFER**

Your attention is drawn to the section headed “Conditions to the Share Offer” in the letter from Barclays in this Composite Document which sets out the conditions of the Share Offer.

### **IRREVOCABLE UNDERTAKING**

Your attention is drawn to the section headed “Irrevocable Undertaking” in the letter from Barclays in this Composite Document for the terms of the Irrevocable Undertaking given by Luna, the Chairman and Ms. Xu on January 17, 2013 in favour of the Offeror Parent to accept or procure the acceptance of the Offer in respect of the Relevant Shares owned by Luna as soon as possible and in any event by 4:00 p.m. on the Business Day after the date of this Composite Document at a consideration of approximately HK\$3,584,587,500 based on the Share Offer Price of HK\$7.50 per Share.

### **SERVICE AGREEMENTS**

#### **Background**

Subject to the Share Offer becoming or being declared unconditional in all respects, Stryker Singapore Pte Ltd, a subsidiary of the Offeror Parent, agrees to engage each of the Chairman and Mr. Qian Xiao Jin as an independent service provider to provide certain services to the Offeror Parent and the Trauson Group for a period of three years. Please refer to the section headed “Service Agreements” in the letter from Barclays in this Composite Document for further details of the Service Agreements.



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## LETTER FROM THE BOARD OF TRAUSON

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### Reasons for and benefits of the Service Agreements

The Trauson Directors consider that the Service Agreements are in the interest of Trauson and Trauson Shareholders as a whole on the basis that the services as contemplated by the Services Agreements to be provided by the Chairman and Mr. Qian Xiao Jin to the Offeror Parent and the Trauson Group will assist in the smooth post-completion transition and integration of the businesses of the Trauson Group with that of the group of the Offeror Parent. The Trauson Directors (including members of the Independent Board Committee) are of the view that the terms of the Service Agreements are on normal commercial terms and fair and reasonable. Your attention is drawn to the section headed “Service Agreements” in the letter from Barclays in this Composite Document.

### Takeovers Code implications

As the Service Agreements are only being entered into by the Chairman and Mr. Qian Xiao Jin and are not being offered to all Trauson Shareholders, the Service Agreements require the consent of the Executive under Note 4 to Rule 25 of the Takeovers Code. The consent, if granted, will be conditional on the Independent Financial Adviser confirming that the terms of the Service Agreements are fair and reasonable (which it has so advised), and the passing of an ordinary resolution by the Independent Trauson Shareholders at the EGM to approve the terms of the Service Agreements.

### INFORMATION ON THE TRAUSON GROUP

Trauson is an exempted company with limited liability incorporated in the Cayman Islands on January 27, 2010. The Shares are listed on the Main Board of the Stock Exchange (Stock Code: 325). Trauson is principally engaged in investment holding. The Trauson Group is a leading manufacturer of orthopaedic products in the PRC and principally engaged in the design, manufacture and sale of various trauma and spine orthopaedic implants and related surgical tools.

As of June 30, 2012, the Trauson Group had over 600 distributors covering over 3,840 licensed hospitals in China.

### SHAREHOLDING STRUCTURE OF TRAUSON

The table below set out the shareholding structure of Trauson as at the Latest Practicable Date:

	Number of Shares	Approximate percentage of interest in Trauson
The Offeror and its Concert Parties	–	–
Luna ( <i>Note</i> )	477,945,000	61.72%
Public	296,383,625	38.28%
Total	774,328,625	100%

*Note:*

The entire issued share capital of Luna is solely and beneficially owned by Ms. Xu, the spouse of the Chairman.

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## LETTER FROM THE BOARD OF TRAUSON

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### INFORMATION ON AND INTENTION OF THE OFFEROR GROUP

Your attention is drawn to the sections headed “Information of the Offeror Parent”, “Information of the Offeror” and “Intentions of the Offeror Group in relation to the Trauson Group” in the letter from Barclays in this Composite Document. The Trauson Board is aware of the Offeror Group’s intention that Trauson will continue to operate its business in its current state, other than certain changes to the composition of Trauson Board as set out in the section headed “Proposed changes to the composition of Trauson Board”, and is willing to co-operate with the Offeror Group further which is in the interests of Trauson and Trauson Shareholders as a whole.

### COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

**The Offeror intends to exercise the right under section 88 of the Cayman Islands Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Share Offer if it, within four months of the posting of this Composite Document, acquires not less than 90% of the Shares. On completion of the compulsory acquisition, if exercised, Trauson will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.**

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise Trauson by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Offeror and its Concert Parties during the four months after the posting of this Composite Document total 90% or more of the disinterested Shares (namely Shares other than those which are owned by the Offeror and its Concert Parties). If the Offeror exercises the compulsory acquisition rights as described above, written notice of the Offeror’s exercise of such right will be provided within two months after the expiration of the four month period from the posting of this Composite Document by the Offeror to those Trauson Shareholders who do not accept the Share Offer, pursuant to which such Trauson Shareholders will be required to sell their Shares to the Offeror.

### WARNING:

**If the level of acceptances of the Share Offer reaches the prescribed level under the Cayman Islands Companies Law and the requirements of Rule 2.11 of the Takeovers Code are satisfied, dealings in the Shares will be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.**

### EGM

Set out on pages 147 to 148 of this Composite Document is a notice convening the EGM which will be held at 2nd Floor, Victoria Room, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on Wednesday, February 27, 2013 at 10:00 a.m. at which a resolution will be proposed to approve the Service Agreements.

A form of proxy for the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the

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## LETTER FROM THE BOARD OF TRAUSON

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same to Hong Kong share registrar of Trauson, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish and in such event, the instrument appointing the proxy shall be deemed to be revoked.

The resolution proposed at the EGM shall be voted by poll. Luna, its associates (as such term is defined in the Takeovers Code) and parties acting in concert with any of them; (ii) the Offeror and its Concert Parties; and (iii) those who are involved in or interested in the Service Agreements are required to abstain from voting at the EGM.

### RECOMMENDATIONS

The Trauson Board considers that the terms of the Service Agreements are fair and reasonable and the entering into the Service Agreement is in the interests of Trauson and the Trauson Shareholders as a whole. Somerley recommends the Independent Trauson Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Service Agreements.

Your attention is also drawn to (i) the letter from the Independent Board Committee which contains its recommendations to (a) the Independent Trauson Shareholders in respect of the Share Offer and the Service Agreements, and (b) the Trauson Optionholders in respect of the Option Offer; and (ii) the letter from Somerley to the Independent Board Committee, which contains its advice to the Independent Board Committee in respect of (a) the Offers and (b) the fairness and reasonableness of the terms of the Service Agreements, and the principal factors considered by it in arriving at its opinions and recommendations.

### ADDITIONAL INFORMATION

Your attention is drawn to the Letter from Barclays as set out on pages 12 to 27 of this Composite Document, the appendices to this Composite Document and the accompanying Form(s) of Acceptance which set out, among other things, details of the Offers, information of the Offeror Group and its intentions in relation to Trauson Group and the procedures for acceptance of the Offers.

In considering what action to take in connection with the Offers, you should also consider your own tax positions, if any, and in case of any doubt, consult your professional advisers.

**WARNING: Trauson Shareholders, Trauson Optionholders and potential investors should be aware that the Share Offer is subject to the satisfaction or waiver (where applicable) of the Conditions and thus the Offers may or may not become unconditional. Trauson Shareholders, Trauson Optionholders and potential investors should therefore exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

Yours faithfully  
By order of the Board of  
**Trauson Holdings Company Limited**  
**Qian Fu Qing**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**TRAUSON HOLDINGS COMPANY LIMITED**  
**創生控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 325)

February 7, 2013

*To Independent Trauson Shareholders and Trauson Optionholders*

Dear Sir or Madam,

**COMPOSITE OFFER AND RESPONSE DOCUMENT**  
**VOLUNTARY CONDITIONAL CASH OFFER BY**  
**BARCLAYS CAPITAL ASIA LIMITED**  
**ON BEHALF OF STRYKER INTERNATIONAL ACQUISITIONS B.V.**  
**TO ACQUIRE ALL OF THE OUTSTANDING SHARES IN**  
**THE ISSUED SHARE CAPITAL OF**  
**TRAUSON HOLDINGS COMPANY LIMITED**  
**AND**  
**TO CANCEL ALL OF THE OUTSTANDING SHARE OPTIONS**  
**OF TRAUSON HOLDINGS COMPANY LIMITED**

**INTRODUCTION**

We refer to this Composite Document dated February 7, 2013 issued jointly by Trauson, the Offeror Parent and the Offeror to Trauson Shareholders and Trauson Optionholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined elsewhere in this Composite Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the Service Agreements and the terms of the Offers and to advise you as to whether, in our opinion, (i) the terms of the Service Agreements are fair and reasonable so far as the Independent Trauson Shareholders are concerned and to make recommendations in respect of voting at the EGM in respect of the Service Agreements, and (ii) the terms of the Offers are fair and reasonable so far as the Independent Trauson Shareholders and Trauson Optionholders are concerned and to make recommendations in respect of acceptances or not of the Offers.

Somerley has been appointed as the independent financial adviser to advise us in respect of the terms of the Service Agreements and the Offers. Your attention is drawn to the letter from Somerley set out in this Composite Document containing its advice to us and the principal factors and reasons taken into account by it in arriving at such advice.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATIONS

Having considered the terms of the Service Agreements and the Offers and the letter of advice and recommendations from Somerley, we consider that (i) the Service Agreements and their respective terms are fair and reasonable so far as Trauson and the Independent Trauson Shareholders are concerned; and (ii) the terms of the Offers are fair and reasonable so far as the Independent Trauson Shareholders and Trauson Optionholders are concerned. Accordingly, we recommend (i) the Independent Trauson Shareholders to vote in favour of the Service Agreements at the EGM and to accept the Share Offer; and (ii) the Trauson Optionholders to accept the Option Offer.

Yours faithfully,  
For and on behalf of the  
Independent Board Committee  
**Mr. Wang Chong Guang Charles**  
**Mr. Chan Yuk Tong**  
**Dr. Lu Bing Heng**  
**Mr. Zhao Zi Lin**

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from Somerley Limited to the Independent Board Committee, which has been prepared for the purpose of inclusion in the Composite Document.*



**SOMERLEY LIMITED**

20th Floor  
Aon China Building  
29 Queen's Road Central  
Hong Kong

February 7, 2013

*To : the Independent Board Committee of  
Trauson Holdings Company Limited*

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
BARCLAYS CAPITAL ASIA LIMITED  
ON BEHALF OF STRYKER INTERNATIONAL ACQUISITIONS B.V.  
TO ACQUIRE ALL OF THE OUTSTANDING SHARES  
IN THE ISSUED SHARE CAPITAL OF  
TRAUSON HOLDINGS COMPANY LIMITED  
AND  
TO CANCEL ALL OF THE OUTSTANDING SHARE OPTIONS OF  
TRAUSON HOLDINGS COMPANY LIMITED**

### **INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee in connection with the Offers and the terms of the Service Agreements. Details of the Offers and the Service Agreements are contained in the Composite Document dated February 7, 2013, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

As set out in the Announcement, Barclays will, on behalf of the Offeror Parent, make a voluntary conditional cash offer (i) to acquire all of the outstanding Shares in the issued share capital of Trauson; and (ii) to cancel all the outstanding Options. As set out in the Announcement, the Offeror Parent had reserved its right to make the Offers through one or more of its wholly-owned subsidiaries. The Offeror Parent has decided to procure the Offeror, one of its wholly-owned subsidiaries, to make the Offers. On January 17, 2013, a subsidiary of the Offeror Parent entered into the Service Agreements with each of the Chairman and his son, Mr. Qian Xiao Jin. As the Service Agreements are being entered into by the Chairman and Mr. Qian Xiao Jin and cannot be offered to all Trauson Shareholders, the consent of the Executive is required for the Service Agreements under Note 4 to Rule 25 of the Takeovers Code. The consent, if granted, will be conditional on (i) the independent financial adviser stating that the terms of the Service Agreements are fair and reasonable; and (ii) the passing of an ordinary resolution by the Independent Trauson Shareholders at the EGM to approve the terms of the Service Agreements.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Trauson Board currently consists of two executive directors, two non-executive directors and three independent non-executive directors. In accordance with Rule 2.8 of the Takeovers Code, members of the Independent Board Committee should comprise all non-executive directors who have no direct or indirect interest in the Offers. Ms. Xu, a non-executive director, is not considered independent in the context of the Offers in view of the fact that Ms. Xu is (i) the sole shareholder of Luna, being the holder of the Relevant Shares, and in respect of which she has given the Irrevocable Undertaking to the Offeror Parent; and (ii) the spouse of the Chairman and the mother of Mr. Qian Xiao Jin, both of whom are parties to the Services Agreements. The four other non-executive directors (including the three independent non-executive directors) have been appointed to constitute the Independent Board Committee to (i) make recommendations to the Independent Trauson Shareholders and Trauson Optionholders as to whether the Offers are fair and reasonable so far as the Independent Trauson Shareholders and Trauson Optionholders are concerned and whether the Independent Trauson Shareholders and Trauson Optionholders should accept the Offers; and (ii) make recommendations to the Independent Trauson Shareholders as to whether the terms of the Service Agreements are fair and reasonable. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in this regard.

We are not associated or connected with Trauson or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers and the terms of the Service Agreements. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from Trauson or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Announcement; (ii) the annual reports of Trauson for the two years ended December 31, 2010 and 2011; and (iii) the interim report of Trauson for the six months ended June 30, 2012. We have also discussed with the Trauson Directors material changes in Trauson's financial position and business prospects since the date of the last published audited accounts as at December 31, 2011. We have also relied on the information and facts supplied, and the opinions expressed, by Trauson Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the Composite Document. We have further assumed that all representations contained or referred to in the Composite Document are true, accurate and complete at the time they were made and at the date of the Composite Document. Trauson Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from Trauson Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of Trauson Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on Trauson Shareholders and Trauson Optionholders of acceptance of the Offers since these depend on their individual circumstances. In particular, Trauson Shareholders and Trauson Optionholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL TERMS OF THE OFFERS

The terms set out below are summarised from the letter from Barclays and letter from the board of Trauson both contained in the Composite Document and Appendix I to the Composite Document. Trauson Shareholders and Trauson Optionholders are encouraged to read the relevant letters and appendix in full.

*(a) Share Offer Price and Option cancellation price*

On behalf of the Offeror, the Offers will be made by Barclays on the following basis:

**The Share Offer:**

For each Share ..... HK\$7.50 in cash

The Shares to be acquired under the Share Offer on the basis that they are fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

**The Option Offer:**

*(A) In respect of Options with an exercise price of HK\$2.17:*

For cancellation of each such Option ..... HK\$5.33 in cash

*(B) In respect of Options with an exercise price of HK\$3.06:*

For cancellation of each such Option ..... HK\$4.44 in cash

*(C) In respect of Options with an exercise price of HK\$2.852:*

For cancellation of each such Option ..... HK\$4.648 in cash

Under Rule 13 of the Takeovers Code, where an offer is made for shares, and options are also outstanding, the offeror must make an appropriate offer or proposal to the holders of the options to ensure that their interests are safeguarded. Equality of treatment is required. The cancellation prices set out above, which are the respective “see through” prices, i.e. the Share Offer Price less the relevant exercise price in respect of the outstanding Options, reflect the normal basis adopted.

By accepting the Option Offer, Trauson Optionholders will renounce and agree to the cancellation of relevant outstanding Options, wherefrom all rights under those outstanding Options shall lapse and be fully discharged and of no further effect.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to the terms of the Share Option Scheme, in the event that a general offer is made to all Trauson Shareholders and such offer becomes or is declared unconditional prior to the expiry date of the relevant Options, Trauson Optionholders are entitled to exercise the Options in full at any time within 14 days after the date on which the offer becomes or is declared unconditional. Accordingly, the exercise period for the Options is accelerated. The Options will lapse automatically and not be exercisable on the expiry of the aforesaid 14-day period. In the event that any of the Options are exercised before the close of the Offers in accordance with the provisions of the Share Option Scheme, the Shares issued as a result thereof will be subject to the Share Offer.

**(b) *Conditions of the Share Offer***

The Share Offer is subject to the Conditions, which include, among other things, valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares (which shall include all the Shares held by Luna) which will result in the Offeror holding at least 90% of the voting rights in Trauson. This Condition may be waived if the Offeror receives acceptances in respect of the Share Offer which would result in the Offeror and persons acting in concert with it holding more than 50% of the voting rights in Trauson. Certain Conditions can be waived in whole or in part by the Offeror while certain Conditions cannot be waived. Further details of the Conditions are set out in the letter from Barclays contained in the Composite Document.

One of the Conditions is the receipt of an opinion from the independent financial adviser to the Independent Board Committee confirming that the terms of the Service Agreements are fair and reasonable; and approval of such terms at the EGM by the Independent Trauson Shareholders. This Condition can be waived by the Offeror. Details of our analysis on the terms of the Service Agreements are set out in the paragraph headed “The Service Agreements” of this letter below. If (1) the Independent Trauson Shareholders do not approve the Service Agreements; and (2) the Offeror does not waive this Condition, the Share Offer will not become unconditional.

On January 17, 2013, Luna, the Chairman and Ms. Xu executed an Irrevocable Undertaking in favour of the Offeror Parent, pursuant to which each of Luna, the Chairman and Ms. Xu has irrevocably undertaken to the Offeror Parent to accept, or procure the acceptance of, the Share Offer with respect to the Relevant Shares as soon as possible and in any event by 4:00 p.m. on the Business Day after the date of the Composite Document. Each of Luna, the Chairman and Ms. Xu has irrevocably undertaken that they will not, and will procure that Luna will not, withdraw any acceptance of the Share Offer in respect of the Relevant Shares. The Irrevocable Undertaking further provides for an escrow arrangement, pursuant to which a portion of the consideration to be paid to Luna for the acceptance of the Share Offer in the sum of HK\$390 million will be deposited into an escrow account for a period of 18 months from the date of Completion (unless there are outstanding claims under the Irrevocable Undertaking the determination of which remains pending in which case the period shall be extended until such claims are either settled or are finally determined) and will be released in accordance with the Irrevocable Undertaking. Details of the Irrevocable Undertaking are contained in the letter from Barclays contained in the Composite Document.

**(c) *Conditions of the Option Offer***

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attached thereto will be cancelled.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offers and the Service Agreements, we have taken into account the following principal factors and reasons:

#### 1. Background to and reasons for the Offers

Trauson is principally engaged in investment holding. The Trauson Group is one of the leading manufacturers of orthopaedic products in the PRC and is principally engaged in the design, manufacture and sale of various trauma and spine orthopaedic implants and related surgical tools. The major products of Trauson Group are (i) trauma products for use in surgical treatment for bone fractures due to accidents, pathological or other reasons; (ii) spine products for use in surgical treatment for spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons; (iii) original equipment manufacturing (“OEM”) of orthopaedic products in accordance with the customer’s orders and specifications; and (iv) other products which include medical instruments and other components.

As of June 30, 2012, the Trauson Group had over 600 distributors covering over 3,840 licensed hospitals in the PRC.

It is stated in the letter from Barclays contained in the Composite Document that the Offeror is indirectly wholly-owned by the Offeror Parent and the Offeror is a newly incorporated private limited liability company existing under the laws of the Netherlands established for the purpose of holding the Shares and the shares of other companies that the group of the Offeror Parent may acquire in the future. The Offeror Parent was incorporated in Michigan in 1946 and the common stock of the Offeror Parent is listed on the New York Stock Exchange. It is one of the world’s leading medical technology companies with 2011 audited revenues in the amount of US\$8,307 million and audited net earnings of US\$1,345 million. Based on the filings to the United States Securities and Exchange Commission (the “SEC”), the 2012 unaudited revenue and net earnings of the Offeror Parent amounted to approximately US\$8,657 million and US\$1,298 million respectively. As set out in the Offeror Parent’s 2011 annual report, its products include implants used in joint replacement and trauma surgeries; surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment; neurosurgical, neurovascular and spinal devices, as well as other medical device products used in a variety of medical specialities. In the United States, most of its products are marketed directly to doctors, hospitals and other healthcare facilities. Internationally, the Offeror Parent’s products are sold in over 100 countries through its own sales subsidiaries and branches as well as third-party dealers and distributors.

Through Trauson’s well-established brand, its research and development expertise, manufacturing capabilities and its strong distribution network in the PRC, the Offeror Parent Directors believe that the acquisition of Trauson will allow the Offeror Parent to broaden its presence in the PRC orthopaedic industry. Also, Trauson should benefit from the technical, international regulatory, financial and management support that the Offeror Parent can provide, accelerating the development of Trauson’s brand, its business model and market position both in domestic and other international markets. Trauson should also have greater access to business and sales internationally, through the scale of the Offeror Parent’s business, distribution abilities and operations outside the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Financial information and prospects of Trauson Group

(a) Financial performance

The following is a summary of the audited consolidated results of Trauson Group for the three years ended December 31, 2009, 2010 and 2011, and the unaudited consolidated results for the six-month periods ended June 30, 2011 and 2012 as extracted from the relevant annual and interim reports of Trauson Group. Further details of the results and other financial information of Trauson Group are set out in Appendix II to the Composite Document. The consolidated results are presented in Renminbi (“RMB”).

	Six months ended June 30,		Year ended December 31,		
	2012 RMB'000 <i>(Unaudited)</i>	2011 RMB'000 <i>(Unaudited)</i>	2011 RMB'000 <i>(Audited)</i>	2010 RMB'000 <i>(Audited)</i>	2009 RMB'000 <i>(Audited)</i>
Revenue	205,869	160,420	384,841	290,742	211,485
Cost of sales	(68,854)	(47,115)	(109,067)	(79,378)	(62,262)
Gross profit	137,015	113,305	275,774	211,364	149,223
Other income and other gains and losses	9,773	(129)	14,579	(2,311)	1,094
Distribution and selling expenses	(17,348)	(12,422)	(26,913)	(17,896)	(21,431)
Administrative expenses	(35,229)	(29,840)	(65,194)	(36,725)	(21,411)
Research and development expenses	(12,143)	(6,758)	(15,763)	(10,617)	(9,710)
Other expenses	(617)	(311)	(598)	(13,906)	(2,536)
Interest expense in relation to bank loans wholly repayable within five years	–	–	–	(325)	(846)
Share of loss of an associate	–	–	–	–	(322)
Profit before tax	81,451	63,845	181,885	129,584	94,061
Income tax expense	(16,808)	(13,445)	(40,771)	(23,325)	(11,882)
Profit for the period/year and total comprehensive income for the period/year	<u>64,643</u>	<u>50,400</u>	<u>141,114</u>	<u>106,259</u>	<u>82,179</u>
Attributable to owners of Trauson	<u>64,643</u>	<u>50,400</u>	<u>141,114</u>	<u>106,259</u>	<u>82,179</u>

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(i) *Revenue*

The following table sets out Trauson Group's revenue by product mix for the three years ended December 31, 2009, 2010 and 2011, and for the six-month periods ended June 30, 2011 and 2012:

	Six months ended		Year ended		
	June 30,		December 31,		
	2012	2011	2011	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Trauma products	114,433	98,093	244,225	183,626	135,417
Spine products	43,470	22,298	60,297	34,274	31,366
OEM products	26,252	28,526	57,163	57,804	31,418
Others	21,714	11,503	23,156	15,038	13,284
<b>Total</b>	<b>205,869</b>	<b>160,420</b>	<b>384,841</b>	<b>290,742</b>	<b>211,485</b>

As illustrated in the summary above, the principal products of Trauson Group are trauma products which contributed more than half of total revenue of Trauson Group. There has been an increasing trend for the sale of trauma products for the past three years ended December 31, 2009, 2010 and 2011 primarily because of the continued expansion of the distribution network of Trauson Group. For the same reason, sale of trauma products for the six months ended June 30, 2012 increased by approximately 16.7% from the corresponding period in 2011 to approximately RMB114.4 million.

The growth of revenue from spine products for the past three years ended December 31, 2009, 2010 and 2011 was primarily attributable to Trauson Group's adjustment in marketing strategy, the increase of orders placed by Trauson Group's international customers as well as the continued expansion of Trauson Group's distribution network. This also led to the growth of revenue from spine products for the six months period ended June 30, 2012 as compared to the corresponding period in 2011.

Due to the increase of orders placed by Trauson Group's OEM customer, there was an increase of sale of OEM products for the year ended December 31, 2010 as compared to that of 2009. However, there was a drop of sale of OEM products in 2011 (by approximately RMB641,000) compared to 2010. The slight drop was mainly caused by the internal restructuring of the OEM customer and the depreciation of the United States dollar against RMB during the year. For the six months ended June 30, 2012, sale of OEM products amounted to approximately RMB26.3 million, representing a drop of approximately 8.0% from the corresponding period in 2011, which was attributable to the drop in orders from the customer.

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*(ii) Gross profit*

As a result of the growth of sales, there was a growth of the gross profit of Trauson Group. The gross profit margins of Trauson Group were approximately 70.6%, 72.7% and 71.7% for the three years ended December 31, 2009, 2010 and 2011 respectively. The gross profit margins of Trauson Group were approximately 66.6% for the six months ended June 30, 2012, representing a drop of approximately 4.0 percentage points as compared to approximately 70.6% for the corresponding period in 2011. The main reasons for the drop of gross profit margin for the six months ended June 30, 2012 were (a) apart from export sales, squeeze on the gross margins of local sales and OEM sales; and (b) the increase of proportion of low-margin products.

*(iii) Other income and other gains and losses*

Other income and other gains and losses included primarily interest income, government grant, gain/loss on disposal of assets, and net foreign exchange gain/loss. For the six months ended June 30, 2012, the other income and other gains and losses were composed mainly of a gain on disposal of available-for-sale investments of approximately RMB7.9 million.

*(iv) Expenses and profits attributable to Trauson Shareholders*

Distribution and selling expenses dropped by approximately 16.5% to approximately RMB17.9 million in 2010 as compared to 2009. Such drop was primarily due to a decrease of sample fees as a result of the change of Trauson's sales strategies from providing free instruments to offering discounts based on actual purchases by distributors. Distribution and selling expenses increased in 2011 and for the six months ended June 30, 2012 as compared to 2010 and the corresponding period in 2011 respectively, primarily as a result of the expansion of the sales and marketing team as well as an increase in marketing activities.

Administrative expenses increased from approximately RMB21.4 million in 2009 to approximately RMB65.2 million in 2011, largely due to the growth in business during the period, as well as the increase in headcount, salaries for administrative staff, staff welfare, and travelling expenses. Moreover, there has been an increase in recurring legal and professional fees since the listing in 2010. As a result of the growth of the management's remuneration and the relevant operating expenses, administrative expenses increased during the six months ended June 30, 2012 as compared to the corresponding period in 2011.

There was an increase in research and development expenses because Trauson Group continued to devote further resources to this area. The other expenses incurred in 2010 represented mainly Trauson's listing expenses in an amount of approximately RMB13.7 million. There were no further listing expenses for 2011 and for the six months ended June 30, 2012, and this resulted in a significant drop in other expenses in 2011 and during the six months ended June 30, 2012 as compared to that of 2010.

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Owing to the growth of business and gross profit which were partly offset by the increase of expenses as explained above, profits attributable to Trauson Shareholders grew from approximately RMB82.2 million in 2009 to approximately RMB141.1 million in 2011. There was also an improvement of profits attributable to Trauson Shareholders for the six months ended June 30, 2012 to approximately RMB64.6 million as compared to that of the corresponding period in 2011.

It is stated in the section headed “Material change” in Appendix II to the Composite Document that after signing of the supply contract (the “Contract”) for the supply of orthopaedic products with a total value of approximately RMB315 million (inclusive of value-added tax), the Trauson Group devoted significant resources and production capacity for the Contract. The gross profit margin of this sale under the Contract is lower than that of other sales of Trauson Group because of the substantial sale amount. Due to the capacity constraints caused by the orders under the Contract, Trauson’s other sales were affected during the year ended December 31, 2012. Certain production lines have to be re-tooled to prepare for other sales. Further details are set out in the headed “Material change” in Appendix II to the Composite Document.

(b) Financial position

Set out below are the summarised consolidated balance sheet of Trauson as at December 31, 2009, December 31, 2010, December 31, 2011 and June 30, 2012. Further details of the financial position of Trauson Group as at those dates and other financial information of Trauson Group are set out in Appendix II to the Composite Document.

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	As at June 30, 2012 RMB'000 (Unaudited)	As at December 31, 2011 RMB'000 (Audited)	As at December 31, 2010 RMB'000 (Audited)	As at December 31, 2009 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	257,005	171,428	149,236	89,512
Prepaid lease payments	33,994	18,896	19,323	20,148
Deposit for acquisition of land use rights and property, plant and equipment	18,933	12,988	–	–
Intangible asset	13,706	9,087	6,186	2,723
Pledged bank deposit	11,200	–	–	–
Deferred tax assets	10,924	7,580	5,150	2,889
	<u>345,762</u>	<u>219,979</u>	<u>179,895</u>	<u>115,272</u>
<b>CURRENT ASSETS</b>				
Inventories	97,682	61,460	46,209	43,557
Trade and other receivables	246,589	156,387	97,488	69,340
Amounts due from related parties	–	–	–	37,485
Prepaid lease payments	735	423	423	432
Bank balances and cash	454,320	695,990	698,766	58,394
Land use rights classified as held for sale	–	–	–	14,988
	<u>799,326</u>	<u>914,260</u>	<u>842,886</u>	<u>224,196</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	86,607	61,262	49,202	36,711
Amounts due to related parties	1,131	275	200	9,377
Amounts due to a shareholder	–	–	–	52,713
Tax liabilities	20,160	19,086	8,980	3,199
Deferred income	4,849	1,020	1,431	–
	<u>112,747</u>	<u>81,643</u>	<u>59,813</u>	<u>102,000</u>
Net current assets	686,579	832,617	783,073	122,196
Total assets less current liabilities	1,032,341	1,052,596	962,968	237,468
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	5,183	6,937	4,118	1,375
Deferred income	17,860	2,886	5,471	–
	<u>23,043</u>	<u>9,823</u>	<u>9,589</u>	<u>1,375</u>
<b>Net assets</b>	<b><u>1,009,298</u></b>	<b><u>1,042,773</u></b>	<b><u>953,379</u></b>	<b><u>236,093</u></b>
<b>CAPITAL AND RESERVES</b>				
Share capital	68,141	68,141	68,141	20
Reserves	941,157	974,632	885,238	236,073
Total equity attributable to owners of Trauson	<u>1,009,298</u>	<u>1,042,773</u>	<u>953,379</u>	<u>236,093</u>

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(i) *Property, plant and equipment, and prepaid lease payments*

Property, plant and equipment of Trauson Group include principally buildings, and plant and machinery used in the business of Trauson Group. Their respective net book value was approximately RMB92.5 million and RMB57.6 million as at December 31, 2011. The prepaid lease payments represent the value attributable to land use rights in the PRC.

(ii) *Intangible asset*

Trauson Group commenced the development of certain new joint products and the corresponding development costs have been recognised as an intangible asset.

(iii) *Inventories*

The inventories of Trauson Group represented approximately 5.4% and 8.5% of Trauson Group's total assets as at December 31, 2011 and June 30, 2012 respectively. Such balance consisted of raw materials, work-in-progress and finished goods.

(iv) *Trade and other receivables*

The trade and other receivables of Trauson Group represented approximately 13.8% and 21.5% of Trauson Group's total assets as at December 31, 2011 and June 30, 2012 respectively. The trade and other receivables comprised mainly the trade receivables. The net trade receivable after doubtful debt allowance amounted to approximately RMB142.9 million and RMB235.4 million as at December 31, 2011 and June 30, 2012 respectively. Trauson Group generally allows a credit period ranging from 0 to 90 days to its trade customers. It is further stated in the 2012 interim report that from time to time, for certain key customers, Trauson Group may grant longer credit periods ranging from 6 months to 3 years. As at June 30, 2012, Trauson Group had net trade receivables of approximately RMB156.3 million aged not exceeding 90 days and approximately RMB22.4 million aged from 91 days to 180 days, which respectively represented approximately 66.4% and 9.5% of the net trade receivables balance. It is disclosed in the 2012 interim report that after the reporting date up to August 15, 2012, cash received from the trade receivables as at June 30, 2012 amounted to approximately RMB113.2 million.

(v) *Cash and indebtedness position*

Bank balances and cash (excluding pledged bank deposit) dropped from approximately RMB696.0 million as at December 31, 2011 to approximately RMB454.3 million as at June 30, 2012 mainly due to net cash used in operating activities of approximately RMB17.9 million, payments for acquisition of property, plant and equipment of approximately RMB118.0 million, and payment of dividend of approximately RMB100.5 million during the six months ended June 30, 2012.



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Trauson Group did not record any interest bearing borrowings as at June 30, 2012. It is stated in the section headed “Indebtedness” in Appendix II to the Composite Document that Trauson Group had outstanding bank loan of RMB5.0 million at the close of business on January 15, 2013, being the latest practicable date for the purpose of indebtedness statement prior to the printing of the Composite Document. Further details are set out in the headed “Indebtedness” in Appendix II to the Composite Document.

(c) Prospects of Trauson Group

As stated in Trauson’s 2012 interim report, the size of the PRC’s orthopaedic-implant device market exceeded RMB8 billion in 2011. Higher standard of living has increased people’s awareness of healthcare in the PRC, and the aging population has led to more chronic orthopaedic diseases. The increasing need for diagnosis and treatment of these chronic orthopaedic diseases has stimulated hospitals to improve their service facilities. It is expected that this will result in increasing demand for Trauson Group’s products. Coupled with the PRC government’s increasing investment in the healthcare industry, the executive directors of Trauson consider that the outlook of the orthopaedic medical device sector remains positive in the long term. Revenue from sales of trauma products accounted for approximately 63.5% and 55.6% of the total revenue of Trauson Group for the year ended December 31, 2011 and for the six months ended June 30, 2012 respectively. Revenue from sales of spine products contributed to approximately 15.7% and 21.1% of the total revenue of Trauson Group for the year ended December 31, 2011 and for the six months ended June 30, 2012 respectively. It is expected that both trauma products and spine products will continue to be the focus of Trauson Group.

Notwithstanding, Trauson Group is not operating its businesses without challenges. Intense competition in the industry may cause products to face pricing pressure and reduced gross profit margins, especially with domestic sales and low-margin OEM sales. Trauson Group may have longer trade receivables turnover days attributable to lengthened credit terms granted to domestic distributors or key customers. Also, various costs of Trauson Group such as cost of raw materials and labour costs have been on an increasing trend, putting further pressure on Trauson Group’s gross profit margin and overall profitability.

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### 3. Peer comparison

#### (a) Comparable Companies

Trauson Group is one of the leading manufacturers of orthopaedic products in the PRC and is principally engaged in the design, manufacture and sale of various trauma and spine orthopaedic implants and related surgical tools. There is no other company listed on the Stock Exchange which has similar principal activities. The common stock of the Offeror Parent is listed on the New York Stock Exchange. We have therefore conducted a search on Bloomberg on a best efforts basis for companies (the “Comparable Companies”) primarily listed on the New York Stock Exchange or NASDAQ (excluding over-the-counter equities) which (1) are principally engaged in design, manufacture and sales of orthopaedic products; (2) had a market capitalisation exceeding US\$200 million as at the day before the Latest Practicable Date; and (3) have reported net profits attributable to equity holders as shown in the latest published annual reports or prospectus. We note from the latest published annual reports or prospectus of the Comparable Companies that the consolidated financial statements of all the Comparable Companies were prepared in conformity with accounting principles generally accepted in the United States, which may differ in certain respects from generally accepted accounting principles in Hong Kong. Moreover, although these Comparable Companies are operating in similar sectors as that of Trauson Group, the Comparable Companies are in markets not identical to that of Trauson Group. As such, the comparison against the Comparable Companies is included in this letter for illustration purpose only. To the best of our knowledge, the Comparable Companies represent an exhaustive list of companies comparable to Trauson based on the abovementioned criteria for selecting the Comparable Companies. For our assessment purpose, we have performed peer analysis by reference to various factors, including historical price earnings multiple and historical price to book multiple, as detailed below.

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- (b) Comparison of historical price earnings multiples (the “PE(s)”)

The table below sets out the historical PEs of the Comparable Companies:

**Table 1: Historical PEs based on latest published results**

Company	Market capitalisation as at the day before the Latest Practicable Date <i>(Approx. US\$'million) (Note 1)</i>	Audited/ unaudited consolidated annual profits attributable to equity holders <i>(Approx. US\$'million) (Note 2)</i>	Historical PE <i>(Approx. times) (Note 3)</i>
Exactech, Inc. (“Exactech”) (stock symbol: EXAC)	254.8	8.8	29.0
Globus Medical, Inc. (“Globus”) (stock symbol: GMED)	1,175.7	60.8	19.3
Stryker Corporation (i.e. the Offeror Parent) (stock symbol: SYK)	23,967.8	1,298.0	18.5
Symmetry Medical Inc. (“Symmetry Medical”) (stock symbol: SMA)	403.9	2.9	139.3
Zimmer Holdings, Inc. (“Zimmer”) (stock symbol: ZMH)	12,747.2	755.0	16.9
<b>Simple average (mean) (Note 4)</b>			<b>24.4</b>
<b>Median</b>			<b>19.3</b>
<b>Maximum</b>			<b>139.3</b>
<b>Minimum</b>			<b>16.9</b>
<b>The Share Offer</b>	<b>HK\$5,807.5 million</b> <i>(Note 5)</i>	<b>HK\$175.6 million</b> <i>(Note 6)</i>	<b>33.1</b>

Notes:

- Market capitalisation figures of the Comparable Companies are sourced from Bloomberg.
- Figures are extracted from latest published filings of annual results to the SEC, annual reports or prospectus of the Comparable Companies available as at the day before the Latest Practicable Date. All annual results (except those of the Offeror Parent and Zimmer) are audited figures.

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3. The historical PEs of the Comparable Companies are calculated based on their latest audited/unaudited consolidated profits attributable to their respective equity holders and their closing market capitalisation as at the day before the Latest Practicable Date.
4. As explained in our analysis below, for Symmetry Medical, the mean of PE of approximately 38.5 times is used in calculating the average PE of the Comparable Companies.
5. The market capitalisation is computed based on the Share Offer Price of HK\$7.50 per Share and total number of issued Shares of 774,328,625 as at the Latest Practicable Date.
6. Being the audited consolidated profit attributable to Trauson Shareholders for the year ended December 31, 2011 of approximately RMB141.1 million which is converted to HK\$ at exchange rate of RMB1 to HK\$1.2446.

As set out in the table above, the historical PEs of the Comparable Companies range from approximately 16.9 times to 139.3 times. The historical PE of Symmetry Medical is an outlier, being substantially higher than the historical PEs of other Comparable Companies. We note from consolidated statements of operations of Symmetry Medical that the net income per share was approximately US\$0.61, US\$0.39 and US\$0.08 for the three years ended January 2, 2010, January 1, 2011 and December 31, 2011 respectively. The results of Symmetry Medical deteriorated shortly in 2011. Within the fiscal year 2011, earnings per share were approximately US\$0.04, US\$0.12 and US\$0.01 for the first quarter, second quarter and third quarter respectively. For the fourth quarter of fiscal year 2011, Symmetry Medical suffered a loss per share of approximately US\$0.09. After hitting the bottom in fourth quarter of fiscal year 2011, Symmetry Medical's results improved during the nine months ended September 30, 2012. The net income per share was approximately US\$0.02, US\$0.05 and US\$0.10 for the first quarter, second quarter and third quarter of 2012 respectively. On this basis, we consider that the substantially high historical PE of Symmetry Medical based on the 2011 fiscal results is largely due to the turnaround of its results from loss in fourth quarter of fiscal year 2011 to profit for the nine months ended September 30, 2012 and the continued improvement of results from 2011 fourth quarter to 2012 third quarter. It was stated in the SEC filing that Symmetry Medical expected its diluted earnings per share for full year 2012 to be in a range of between US\$0.26 and US\$0.31, with a mid-point of US\$0.285. Based on the closing price of Symmetry Medical of US\$10.98 per share as at the day before the Latest Practicable Date and the midpoint of the range of expected diluted earnings per share, the PE of Symmetry Medical is approximately 38.5 times. On this basis, we are of the view that it would be more appropriate to use this PE of 38.5 times for calculating the average PE of the Comparable Companies for comparison purpose.

The mean and median of the historical PEs of the Comparable Companies are approximately 24.4 times and 19.3 times respectively with a range of between approximately 16.9 times and 139.3 times. The implied historical PE based on market capitalisation of Trauson represented by the Share Offer Price of approximately 33.1 times is within this range, and is higher than the mean and median of the historical PEs of the Comparable Companies.

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For illustrative purposes only, we have searched the latest filings of the Comparable Companies submitted to the SEC regarding their respective estimated diluted earnings per share. No such estimation is made by Globus. The results are set out in the table below:

**Table 2: Illustrative updated, unaudited and estimated financial information**

Company	Closing share price as at the day before the Latest Practicable Date <i>(US\$)</i> <i>(Note 1)</i>	Estimated range of diluted earnings per share (“EPS”) <i>(US\$)</i> <i>(Note 2)</i>	Mid-point of estimated range of diluted EPS <i>(US\$)</i>	Prospective PE <i>(Approx. times)</i> <i>(Note 3)</i>
Exactech	19.15	0.93-0.95	0.940	20.4
The Offeror Parent	63.04	4.02-4.22	4.120	15.3
Symmetry Medical	10.98	0.26-0.31	0.285	38.5
Zimmer	73.47	5.05-5.25	5.150	14.3
<b>Simple average (mean)</b>				<b>22.1</b>
<b>Median</b>				<b>17.9</b>
<b>Maximum</b>				<b>38.5</b>
<b>Minimum</b>				<b>14.3</b>

*Notes:*

1. Source: Bloomberg.
2. Figures are extracted from latest filings to the SEC made by the Comparable Companies available as at the day before the Latest Practicable Date. For the cases of Exactech and Symmetry Medical, the figures refer to the estimated diluted EPS for 2012. For the cases of the Offeror Parent and Zimmer, the figures refer to the estimated diluted EPS for 2013.
3. The prospective PEs of the Comparable Companies are calculated based on the closing price per share as at the day before the Latest Practicable Date and the mid-point of the range of estimated diluted EPS.
4. For Globus, the information regarding estimated diluted EPS was not available in its latest filings to SEC as at the day before the Latest Practicable Date. Therefore, Globus is excluded from the table above for illustration.

It is shown in the table above that the prospective PEs of the Comparable Companies range from approximately 14.3 times to 38.5 times with a mean and median of approximately 22.1 times and 17.9 times respectively. Trauson has not made any forecast of its 2012 results. The unaudited profit attributable to Trauson Shareholders for the six months ended June 30, 2012 was approximately RMB64.6 million. For illustration only, if Trauson’s first six months profit in 2012 is added to the second six months profit in 2011, the implied PE based on market capitalisation of Trauson represented by the Share Offer Price would be approximately 30.0 times which is still within the range, and is higher than the mean and median of the prospective PEs of the Comparable Companies.

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- (c) Comparison of historical price to book multiples (the “PB(s)”)

The table below sets out the historical PBs of the Comparable Companies:

<b>Company</b>	<b>Market capitalisation as at the day before the Latest Practicable Date (Approx. US\$'million) (Note 1)</b>	<b>Unaudited consolidated net asset value attributable to equity holders (Approx. US\$'million) (Note 2)</b>	<b>Historical PB (Approx. times) (Note 3)</b>
Exactech	254.8	166.3	1.5
Globus	1,175.7	364.3	3.2
The Offeror Parent	23,967.8	8,361.0 (Note 6)	2.9
Symmetry Medical	403.9	310.3	1.3
Zimmer	12,747.2	5,825.0 (Note 6)	2.2
<b>All Comparable Companies</b>			
<b>Simple average (mean)</b>			<b>2.2</b>
<b>Median</b>			<b>2.2</b>
<b>Maximum</b>			<b>3.2</b>
<b>Minimum</b>			<b>1.3</b>
<b>The Share Offer</b>	<b>HK\$5,807.5 million (Note 4)</b>	<b>HK\$1,256.2 million (Note 5)</b>	<b>4.6</b>

*Notes:*

- Market capitalisation figures of the Comparable Companies are sourced from Bloomberg.
- Figures are extracted from latest published quarterly reports of the Comparable Companies available as at the day before the Latest Practicable Date.
- The historical PBs of the Comparable Companies are calculated based on their latest unaudited consolidated net asset values attributable to their respective equity holders and their closing market capitalisation as at the day before the Latest Practicable Date.
- The market capitalisation is computed based on the Share Offer Price of HK\$7.50 per Share and total number of issued Shares of 774,328,625 as at the Latest Practicable Date.
- Being the unaudited consolidated net asset value attributable to Trauson Shareholders as at June 30, 2012 of approximately RMB1,009.3 million which is converted to HK\$ at exchange rate of RMB1 to HK\$1.2446.
- As disclosed in the SEC filing of Zimmer dated January 31, 2013, the unaudited stockholders' equity of Zimmer was approximately US\$5,866.3 million as at December 31, 2012. However, the amount of non-controlling interest was not separately disclosed. As a result, the consolidated net asset value attributable to the equity holders of Zimmer as at December 31, 2012 cannot be determined. We have calculated the historical PB of Zimmer based on the unaudited consolidated net asset value attributable to its equity holders as at September 30, 2012 of approximately US\$5,825.0 million.

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With similar reasons as above, as disclosed in the SEC filing of the Offeror Parent dated January 23, 2013, the unaudited stockholders' equity of the Offeror Parent was approximately US\$8,597 million as at December 31, 2012. No figure of non-controlling interest was disclosed. Although there was no non-controlling interest for the Offeror Parent as at September 30, 2012 as disclosed in its 2012 third quarterly report, it is uncertain whether there was any non-controlling interest as at December 31, 2012. Accordingly, we have calculated the historical PB of the Offeror Parent based on the unaudited consolidated net asset value attributable to its equity holders as at September 30, 2012 of approximately US\$8,361 million.

The historical PBs of the Comparable Companies range from approximately 1.3 times to 3.2 times, with mean and median being both of approximately 2.2 times. The implied historical PB based on market capitalisation of Trauson represented by the Share Offer Price is approximately 4.6 times which is more favourable to Trauson Shareholders than those of the Comparable Companies.

#### **4. Proposal precedents**

The cancellation prices and general offer prices for privatisation proposals are, in general, determined by reference to, among other things, then stock market conditions. Due to the recent recovery of stock market in Hong Kong, we consider that the privatisation proposals announced before one year from the date of the Announcement do not provide meaningful comparison. Accordingly, we have reviewed all the privatisation proposals either by way of scheme of arrangement or general offer involving listed companies in Hong Kong (the "Proposal Precedents") announced since January 1, 2012 and up to the day before the Latest Practicable Date (excluding pending cases). Set out in the table below are the details of all the Proposal Precedents based on the abovementioned selection criteria:

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Date of announcement	Company	Premium of offer/cancellation price over the closing share price/average closing share price prior to announcement of general offer/privatisation proposal			Result
		Last trading day	30 trading days average closing price	60 trading days average closing price	
May 8, 2012	Frasers Property (China) Limited (stock code: 535)	47.4%	62.8%	67.7%	Privatisation failed
April 2, 2012	Asia Satellite Telecommunications Holdings Limited (stock code: 1135) (Note 1)	23.7%	29.1%	36.1%	Privatisation failed
March 23, 2012	Samling Global Limited (“Samling”) (stock code: 3938) (Note 2)	102.7%	102.7%	93.4%	Successfully delisted
February 21, 2012	Alibaba.com Limited (stock code: 1688)	45.9%	58.8%	60.4%	Successfully delisted
<b>Simple average (mean)</b>		<b>54.9%</b>	<b>63.4%</b>	<b>64.4%</b>	
<b>Median</b>		<b>46.7%</b>	<b>60.8%</b>	<b>64.1%</b>	
<b>Maximum</b>		<b>102.7%</b>	<b>102.7%</b>	<b>93.4%</b>	
<b>Minimum</b>		<b>23.7%</b>	<b>29.1%</b>	<b>36.1%</b>	
<b>January 17, 2013</b>	<b>The Share Offer</b>	<b>66.7%</b>	<b>81.7%</b>	<b>83.8%</b>	

Source: Published announcements and privatisation documents relating to the above proposals and Bloomberg.

Notes:

- (1) Based on the revised cancellation price as disclosed in the privatisation document of Asia Satellite Telecommunications Holdings Limited dated June 25, 2012.
- (2) In the case of Samling, before the detailed announcement in relation to the privatisation proposal dated on March 23, 2012, a preliminary announcement (the “Preliminary Announcement”) was made on January 30, 2012 in relation to a possible privatisation proposal. We have compared the cancellation price to closing share price and average closing share price of Samling as of January 19, 2012 (being the last trading day before the suspension of trading in shares of Samling before the Preliminary Announcement), and for 30 trading days before January 19, 2012 and 60 trading days before January 19, 2012 respectively.



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Based on the table above, the premia represented by the Share Offer Price is within the range of premia of the Proposal Precedents for the same periods. The means of the premium over average closing share price for the Proposal Precedents over the last trading day, 30 trading days average and 60 trading days average were approximately 54.9%, 63.4% and 64.4% respectively while the medians of the premium over average closing share price for the Proposal Precedents over the last trading day, 30 trading days average and 60 trading days average were approximately 46.7%, 60.8% and 64.1% respectively. The premium represented by the Share Offer Price for the same periods were above the means and medians of premium of the Proposal Precedents.

### 5. Analysis on the price performance and trading liquidity of the Shares

#### (a) Price performance

The Share Offer Price of HK\$7.50 for each Share represents:

- (i) a premium of approximately 66.7% over the closing price of HK\$4.50 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 45.3% over the closing price of HK\$5.16 per Share as quoted on the Stock Exchange at the time of suspension of trading of the Shares;
- (iii) a premium of approximately 77.6% over the average closing price of HK\$4.22 per Share for the last 5 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (iv) a premium of approximately 82.5% over the average closing price of HK\$4.11 per Share for the last 10 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (v) a premium of approximately 82.9% over the average closing price of approximately HK\$4.10 per Share for the last 20 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (vi) a premium of approximately 81.7% over the average closing price of approximately HK\$4.13 per Share for the last 30 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (vii) a premium of approximately 83.8% over the average closing price of approximately HK\$4.08 per Share for the last 60 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (viii) a premium of approximately 352.4% over the audited consolidated net asset value per Share as at December 31, 2011;

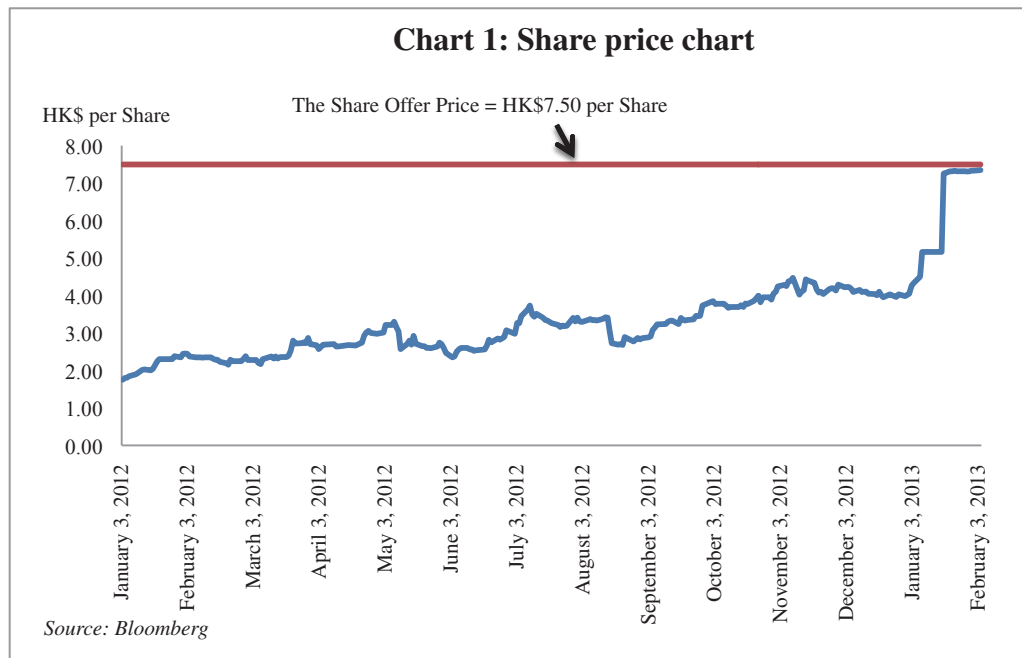
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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ix) a premium of approximately 363.0% over the unaudited consolidated net asset value per Share as at June 30, 2012 of approximately RMB1.30 (equivalent to approximately HK\$1.62 with an exchange rate of RMB1 = HK\$1.2446), where the net asset value per Share is derived by dividing the unaudited net asset value of Trauson Group attributable to equity holders by the number of issued Shares as at June 30, 2012; and
- (x) a premium of approximately 2.0% over the closing price of HK\$7.35 per Share as quoted on the Stock Exchange as at the Last Practicable Date.

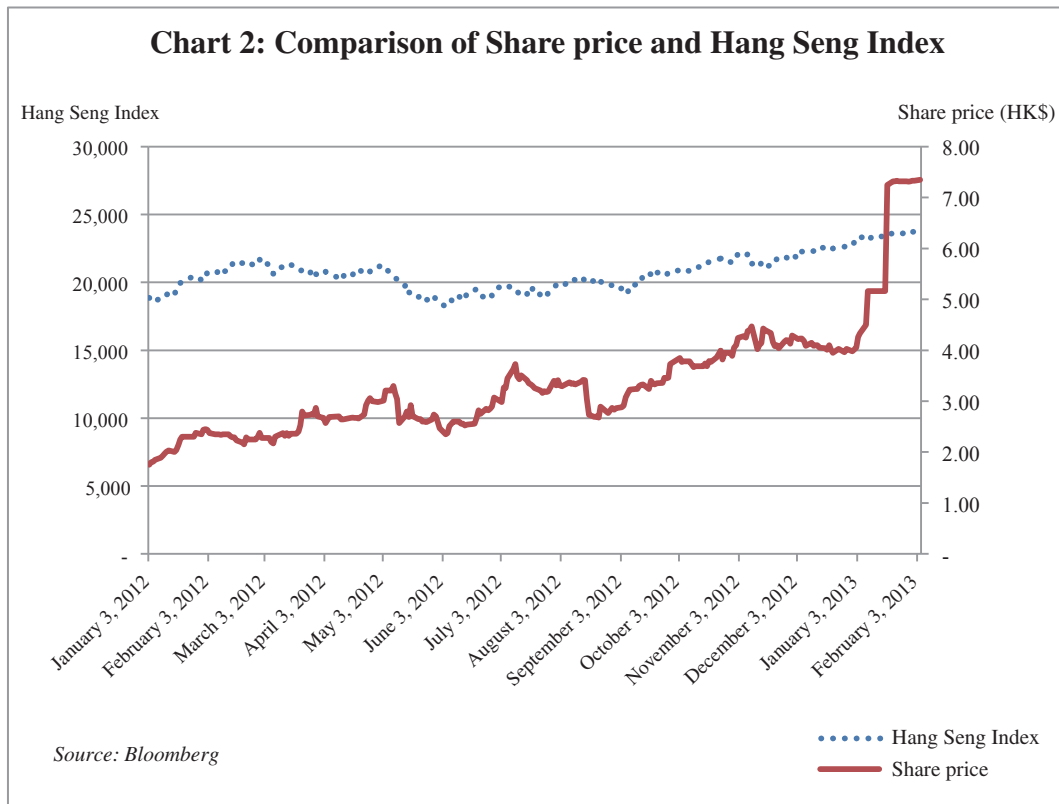
Chart 1 below illustrates the daily closing price per Share from January 1, 2012, being approximately one year before the Last Trading Date, up to and including the Latest Practicable Date:



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As illustrated in chart 1 above, the closing prices of the Shares were below the Share Offer Price at all times during the period under review. Also, as illustrated in chart 2 above, the fluctuation of the closing price of the Shares during the period under review was mainly aligned with the overall market. The Shares closed at HK\$4.50 on the Last Trading Date and surged to HK\$7.25 on January 18, 2013, being the trading day immediately after the release of the Announcement. The Share price remained at the level of around HK\$7.3 after January 18, 2013. In our opinion, the recent rise in Share price is highly likely to be due to the announcement of the Offers. There is no assurance that the price of the Shares will remain at the current level if the Offers close, lapse or do not become unconditional for any reason.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(b) Trading liquidity

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued share capital of Trauson from January 1, 2012 up to and including the Latest Practicable Date:

	<b>Monthly total trading volume of the Shares</b> <i>(Note 1)</i>	<b>Percentage of the monthly total trading volume of the Shares to the total issued Shares</b> <i>(Note 2)</i>
<b>2012</b>		
January	5,770,060	0.75%
February	10,910,332	1.41%
March	42,047,289	5.43%
April	58,930,987	7.61%
May	25,688,000	3.32%
June	16,046,112	2.07%
July	28,896,625	3.73%
August	46,089,259	5.95%
September	40,501,000	5.23%
October	32,880,750	4.25%
November	29,072,124	3.75%
December	14,142,502	1.83%
<b>2013</b>		
January	185,267,912	23.93%
From February 1, 2013 to the Latest Practicable Date	8,640,256	1.12%

*Notes:*

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volumes of the Shares divided by the total issued share capital of Trauson at the end of each month.

As illustrated in the above table, save for March, April, August and September 2012, and January 2013, the trading volume of the Shares was thin during the period under review, with monthly trading volumes ranging from approximately 5.8 million Shares to 32.9 million Shares. On March 21, 2012, Trauson published the annual results announcement for the year ended December 31, 2011. The profit attributable to owners of Trauson increased by approximately 32.8% in 2011 as compared to that of 2010. Trauson Board recommended a final dividend of RMB3.79 cents and a special dividend of RMB9.21 cents per Share for the year ended December 31, 2011. The 2012 interim results announcement was released by Trauson on August 15, 2012. Profit attributable to owners of the Company increased by approximately 28.3% for the six months ended June 30, 2012 as compared to that of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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corresponding period in 2011. Trauson Board recommended an interim dividend of RMB2.17 cents and a special dividend of RMB2.00 cents per Share for the six months ended June 30, 2012. The relatively higher trading volume in March, April, August and September 2012 might have been prompted by 2011 annual results announcement and 2012 interim results announcement. The trading volume of the Shares in January 2013 surged to approximately 185.3 million Shares, representing approximately 23.93% of the total issued Shares. The sudden surge in trading volume of the Shares in January 2013 was likely due to the announcement of the Offers.

Given the thin trading volume of the Shares in the past, in our view, Trauson Shareholders who wish to sell a significant number of their Shares within a short period in the market at this level of liquidity may cause downward pressure on the market price of the Shares. Therefore, the Share Offer represents an opportunity for Trauson Shareholders to dispose of their entire holdings at the Share Offer Price if they so wish.

### **6. Intentions of the Offeror Group regarding Trauson Group**

As stated in the letter from Barclays contained in the Composite Document, following completion of the Offers, the Offeror Group will review the businesses of Trauson, including, among others, Trauson's relationships with its distributors and customers, portfolio of products and product designs, assets, corporate and organizational structure, capitalization, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, following the completion of the Offers in order to best organize and optimize the businesses and operations of Trauson and to integrate the same within the group of the Offeror Parent. The Offeror Group intends that Trauson will continue to operate its business in its current state. Other than certain changes to the composition of Trauson Board as set out under the section headed "Proposed changes to the composition of Trauson Board" in the letter from Barclays contained in the Composite Document, the Offeror Group does not intend to institute any major changes to Trauson's current business and operation (including redeployment of the fixed assets of Trauson Group and employee changes within Trauson Group).

However, the Offeror Group reserves the right to make any changes that it deems necessary or appropriate to Trauson's businesses and operations to better integrate, generate maximum synergy and exploit full economies of scale with the other operations of the group of the Offeror Parent. Accordingly, there may be material changes in the financial or operational policies of Trauson Group which could affect its prospects after completion of the Offers.

### **7. Compulsory acquisition and possible withdrawal of listing**

One of the Conditions of the Share Offer is the receipt of valid acceptances of the Share Offer resulting in the Offeror holding at least 90% of the voting rights in Trauson. This Condition may be waived if the Offeror receives acceptances in respect of the Share Offer which would result in the Offeror and persons acting in concert with it holding more than 50% of the voting rights in Trauson.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It is the intention of the Offeror to exercise the right under section 88 of the Cayman Islands Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Share Offer if it, within four months of the posting of the Composite Document, acquires not less than 90% of the Shares. On completion of the compulsory acquisition, if exercised, Trauson will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

If the right of the compulsory acquisition is exercised and requirements of Rule 2.11 of the Takeovers Code can be met, dealings in the Shares will be suspended from the Closing Date up to the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

Accordingly, Trauson Shareholders should note the possibility that the listing of the Shares may in due course be withdrawn from the Stock Exchange.

Trauson Shareholders should be aware that, if (1) the Offeror does not effect the compulsory acquisition but proceeds with the Offers (whether by reason of waiving the Condition (a) or otherwise); and (2) the number of Shares held by the public, as defined in the Listing Rules, comprises less than 25% of the issued Shares of Trauson at the close of the Offers, trading in the Shares may be suspended. It is stated in the letter from Barclays contained in the Composite Document that the Offeror will, following the closing of the Offers, take appropriate steps (which may include disposing of some of its Shares and/or procuring Trauson to issue new Shares) to ensure that not less than 25% of the Shares will be held by the public in compliance with the Listing Rules in this circumstance.

### **8. The Service Agreements**

#### *(i) Background to the Service Agreements*

On January 17, 2013, the Service Agreements were entered into between a subsidiary of the Offeror Parent with each of the Chairman and Mr. Qian Xiao Jin, pursuant to which the subsidiary of the Offeror Parent agrees (subject to the Share Offer becoming or being declared unconditional in all respects) to engage each of the Chairman and Mr. Qian Xiao Jin as an independent service provider to provide certain services to the Offeror Parent and Trauson Group for a period of three years. In addition, non-competition and non-solicitation undertakings were provided pursuant to the Service Agreements. Details of the terms of the Service Agreements are set out in the letter from Barclays contained in the Composite Document.

As the Service Agreements are being entered into by the Chairman and Mr. Qian Xiao Jin and cannot be offered to all Trauson Shareholders, the Service Agreements require the consent of the Executive under Note 4 to Rule 25 of the Takeovers Code. The consent, if granted, will be conditional on the independent financial adviser stating that the terms of the Service Agreements are fair and reasonable, and the passing of an ordinary resolution by the Independent Trauson Shareholders at the EGM. The receipt of an opinion from the independent financial adviser stating that the terms of the Service Agreements are fair and reasonable and the approval of the Independent Trauson Shareholders at the EGM are among the Conditions to the Share Offer.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *Reasons for the Service Agreements*

As set out in the paragraph headed “Background to and reasons for the Offers” above, the acquisition of Trauson is believed by the Offeror Parent to give rise to significant opportunities for the Offeror Parent to broaden its presence in the PRC orthopaedic market. The Offeror Parent places significant value on the Chairman’s continuing involvement in Trauson Group after Completion given the Chairman has over 25 years of experience in the research, development, manufacture and sale of orthopaedic products and related instruments in the PRC. He is responsible for overseeing the overall strategic development of Trauson Group as well as the different aspects of its operation. Further, being a founder of Trauson Group, the Chairman has established extensive and important relationships with distributors, suppliers and the local regulators. He has been appointed to positions in various industry committees/associations in the past. For these reasons, the Offeror Parent considers the Chairman’s continuing involvement in Trauson Group’s business for a period of time post-Completion is crucial to the development of Trauson Group’s business in future.

The Offeror Parent also places significant value on the continued involvement of Mr. Qian Xiao Jin, current vice president, director of public relations and secretary of Trauson Board, with Trauson Group. Mr. Qian Xiao Jin was educated in Canada and obtained a master’s degree in business management. Mr. Qian Xiao Jin speaks fluent English, which the Chairman does not, and is heavily involved in the development of Trauson Group’s international businesses. He also plays an important role internally within Trauson Group, acting as the key person in coordinating and facilitating cooperation across the various divisions and departments within Trauson Group. Having had the benefit of working closely with the Chairman, he has become very familiar with Trauson Group’s business and the Offeror Parent expects him to play a key role in the integration process after Completion.

In view of the importance of the Chairman to Trauson Group, the Offeror Parent believes the prospects of Trauson Group would strongly benefit if the Chairman continues to be involved in the business of Trauson Group after Completion. As the Chairman does not speak English, Mr. Qian Xiao Jin (who can speak fluent English) has been the key interface between the Offeror Parent and Chairman during the negotiation of the Offers. Accordingly, during the negotiations, the Offeror Parent requested the services of both of the Chairman and Mr. Qian Xiao Jin for a sufficiently long period after Completion to ensure a smooth post-transaction transition and integration process.

On this basis, we consider that it is reasonable for the parties to enter into the Service Agreements.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(iii) *Principal terms of the Service Agreements*

(a) Service fees and scope of services

Pursuant to the Service Agreements, the Chairman will receive US\$1.68 million per annum of service for three years from the Unconditional Date payable on a monthly basis. The services to be provided by the Chairman include, among others:

- cooperating with Trauson Group and the Offeror Parent in the post-Completion transition period to assist in Trauson Group's integration with the Offeror Parent;
- advising on Trauson Group's manufacturing operations and the transfer of the instrumentation manufacturing business;
- providing assistance with transitioning relationships with distributors, suppliers, consultants, experts in the industry, local government agencies and industry associations;
- providing assistance with transitioning relationships with key internal stakeholders and the retention of key employees of Trauson Group;
- providing advice on new product development and the reconfiguration of existing products of Trauson Group;
- providing assistance and advice on the management of distributors, the tendering process and marketing strategies;
- providing assistance and advice on local regulatory strategy and relationships with local regulatory authorities;
- providing assistance in respect of the maintenance of the high and new technology enterprise and other tax preferred status of Trauson Group and any new applications for such status;
- providing assistance with the growth of Trauson Group's business outside of China; and
- any other services the Offeror Parent may request the Chairman to perform from time to time that are reasonably within the scope of the Chairman's capabilities and are related to the business of Trauson Group.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to the Service Agreements, Mr. Qian Xiao Jin will receive US\$320,000 per annum of service for three years from the Unconditional Date payable on a monthly basis. The services to be provided by Mr. Qian Xiao Jin include, among others:

- providing assistance to Trauson Group in the recovery of the Property Purchase Amount;
- providing assistance to Trauson Group in respect of its business outside of China;
- cooperating in the post-Completion integration process and in particular, co-chairing the integration committee of Trauson Group to support the integration efforts and key workstreams;
- coordinating information exchange between the Offeror Parent and Trauson Group, particularly involving potential alliances and acquisitions in China;
- providing assistance to Trauson Group in identifying potential business development and growth opportunities, whether inside or outside of China;
- providing assistance with transitioning relationships with key internal stakeholders and the retention of key employees; and
- any other services the Offeror Parent may request Mr. Qian Xiao Jin to perform from time to time that are reasonably within the scope of Mr. Qian Xiao Jin's capabilities and are related to the business of Trauson Group.

The current remunerations of the Chairman and Mr. Qian Xiao Jin are approximately US\$664,000 per annum and US\$130,600 per annum respectively. In addition, in 2012, Mr. Qian Xiao Jin was granted 3,000,000 Options at an exercise price of HK\$2.852 per Share. Based on the terms of the Option Offer, such Options are valued at approximately HK\$13.9 million.

(b) Non-competition and non-solicitation undertakings

Subject to the completion of the Offers, each of Luna, the Chairman, Ms. Xu and Mr. Qian Xiao Jin has also provided unconditional and irrevocable non-competition and non-solicitation undertakings pursuant to which, among other things, each of them agrees not to compete (and will procure that their close relatives will not compete) with Trauson Group's business for five years from the Unconditional Date. Details of the non-competition and non-solicitation undertakings are set out in the letter from Barclays contained in the Composite Document.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(iv) *Basis for the service fees*

When determining the service fees contemplated under the Service Agreements, the parties first made reference to the remuneration package paid to the senior executives of the Offeror Parent. Further factors were taken into consideration among the parties including the scope of services to be provided by the Chairman and Mr. Qian Xiao Jin, their respective qualifications and experience in the orthopaedic industry, their expected level of responsibility and future contribution to Trauson Group's business. In determining the aggregate service fees of the Chairman and Mr. Qian Xiao Jin, the Offeror Parent regarded the Chairman and Mr. Qian Xiao Jin as a single adviser to the Offeror Parent. After fixing the annual service fees at US\$2 million, the allocation of the amount to be paid to the Chairman and Mr. Qian Xiao Jin is determined based on the approximate split of their current remuneration of US\$664,000 and US\$130,600 per annum respectively.

(v) *Assessment of the remuneration package under the Service Agreements*

As set out above, the service fees contemplated under the Service Agreements were determined among parties mainly by reference to, among other things, the remuneration package paid to the senior executives of the Offeror Parent. Accordingly, when considering the terms of the Service Agreements with respect to the aggregate service fees to be paid to the Chairman and Mr. Qian Xiao Jin under at the Service Agreements, we are of the view that it is appropriate to make reference to the compensation package paid by the Comparable Companies to their respective senior executives. We have reviewed the 2011 total compensation package of the senior executives of each of the Comparable Companies as extracted from their respective latest statutory filing (save for Globus where the information was extracted from its prospectus dated August 2, 2012) as at the day before the Latest Practicable Date. Details are summarized in the table below:

<b>Company</b>	<b>2011 total compensation package paid out to senior executives (US\$) (Note 1)</b>	<b>Number of senior executives</b>	<b>Average (Approx. US\$) (Note 2)</b>
Exactech	2,956,229	5	591,246
Globus	2,783,804	3	927,935
The Offeror Parent	20,399,408	6	3,399,901
Symmetry Medical	6,000,221	6	1,000,037
Zimmer	21,995,097	5	4,399,019
<b>Total</b>	<b>54,134,759</b>	<b>25</b>	<b>2,165,390</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. As set out in the respective latest statutory filing/prospectus of the Comparable Companies, total compensation package includes salary, bonus, stock awards, option awards, non-equity incentive plan compensation, change in pension value and non-qualified deferred compensation earnings and all other compensation. It should be noted that the components of the compensation package as listed above of each company and each individual senior executive may vary.
2. Being the 2011 total compensation package paid out to senior executives divided by the number of senior executives.

As illustrated by the table above, the average compensation package paid to a senior executive by the Comparable Companies in 2011 was in the range of between approximately US\$591,246 to US\$4.4 million. The aggregate annual service fees to be paid to the Chairman (US\$1.68 million) and Mr. Qian Xiao Jin (US\$320,000) under the Service Agreements of US\$2 million are within that range. As stated above, the service fees to be paid to the Chairman and Mr. Qian Xiao Jin were determined with reference to, among other things, the remuneration package paid to the senior executives of the Offeror Parent. As disclosed in the statutory filing of the Offeror Parent, the total compensation package for each senior executive in 2011 ranged from approximately US\$1.6 million to US\$9.5 million, with an average of approximately US\$3.4 million for each senior executive. Among the Comparable Companies, based on market capitalisation, Zimmer is the second largest company (with market capitalisation of approximately US\$12,747.2 million as at the day before the Latest Practicable Date) after the Offeror Parent (whose market capitalisation amounted to approximately US\$23,967.8 million as at the day before the Latest Practicable Date). As disclosed in the statutory filing of Zimmer, the total compensation package for each senior executive in 2011 ranged from approximately US\$2.7 million to US\$9.2 million, with an average of approximately US\$4.4 million for each senior executive. Accordingly, the aggregate annual service fees to be paid to the Chairman and Mr. Qian Xiao Jin under the Service Agreements are below the average compensation package paid to senior executives by the Offeror Parent and Zimmer.

As shown in the paragraph headed “Peer comparison” above, the market capitalisation of each of Exactech, Globus and Symmetry Medical on the day before the Latest Practicable Date was much lower than that of the Offeror Parent and Zimmer. This may result in the lower average compensation package paid to a senior executive by Exactech, Globus and Symmetry Medical as compared to that of the Offeror Parent and Zimmer.

As stated above, the current annual remuneration of the Chairman and Mr. Qian Xiao Jin are approximately US\$664,000 and US\$130,600 respectively. The allocation of the service fees to be paid to the Chairman and Mr. Qian Xiao Jin under the Service Agreements of approximately US\$1.68 million and US\$320,000 per annum respectively is determined based on the approximate split of their current remuneration of US\$664,000 and US\$130,600 per annum respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Although the annual service fees of US\$2 million payable to the Chairman and Mr. Qian Xiao Jin are considerably greater than their current annual remuneration, we consider that they are reasonable because (1) such US\$2 million is within the range of the average compensation package paid to a senior executive by the Comparable Companies in 2011; (2) the family of the Chairman will not be entitled to any dividend distributions of Trauson after Completion (the dividend distributions payable to the family of the Chairman were approximately RMB77.6 million and RMB19.9 million for the financial year ended December 31, 2011 and for the six months ended June 30, 2012 respectively); and (3) the aggregate annual service fees to be paid to the Chairman and Mr. Qian Xiao Jin under the Service Agreements are below the average compensation package paid to a senior executive by the Offeror Parent and Zimmer. On this basis, we consider that the terms of the Service Agreements are fair and reasonable so far as the Independent Trauson Shareholders are concerned.

### 9. The Option Offer

The Option Offer involves a cancellation price of (i) HK\$5.33 in cash per Option in respect of Options with an exercise price of HK\$2.17; (ii) HK\$4.44 in cash per Option in respect of Options with an exercise price of HK\$3.06; and (iii) HK\$4.648 in cash per Option in respect of Options with an exercise price of HK\$2.852. These prices are based on the “see-through” principle and the Share Offer Price of HK\$7.50. Such “see-through” principle is normally adopted in Hong Kong for privatisation proposals and general offers of a similar nature. On the basis that (i) all the outstanding Options are in-the-money (i.e. exercise prices being below the Share Offer Price); (ii) the cancellation prices of the Options are based on the “see-through” principle; and (iii) any Options which remain unexercised will lapse automatically and not be exercisable on the expiry of the 14-day period after the date on which the offer becomes or is declared unconditional in accordance with the terms of the Share Option Scheme regardless of whether Trauson will remain listed or not after the Offers, we consider the terms of the Option Offer to be fair and reasonable so far as Trauson Optionholders are concerned.

## OPINION AND RECOMMENDATION

### In respect of the Share Offer

Having taken into account the above principal factors and reasons, in particular:

- the Share Offer Price represents a premium of approximately 66.7% over the closing price of HK\$4.50 per Share as quoted on the Stock Exchange on the Last Trading Date;
- the premia of the Share Offer Price over average closing Share price over the Last Trading Date, 30 trading days average and 60 trading days average were above the means and medians of premium of the Proposal Precedents;
- the Share Offer Price represents a premium of approximately 363.0% over the unaudited consolidated net asset value per Share as at June 30, 2012; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- Trauson Shareholders who wish to sell a significant number of their Shares within a short period in the market at the relatively low liquidity of the Shares may cause downward pressure on the market price of the Shares;

we consider that the terms of the Share Offer (including the Share Offer Price) are fair and reasonable so far as the Independent Trauson Shareholders are concerned and accordingly advise the Independent Board Committee to recommend the Independent Trauson Shareholders to accept the Share Offer.

Trauson Shareholders should note that the Share Offer Price represents a slight premium over the closing price of the Shares in the range of HK\$7.25 to HK\$7.35 after the release of the Announcement. The Share Offer Price also represents a slight premium of approximately 2.0% over the closing price of the Shares of HK\$7.35 as at the Latest Practicable Date. Should the market price of the Shares exceed the Share Offer Price during the period while the Share Offer is open, and the sales proceeds, net of transaction costs, exceed the net amount receivable under the Share Offer, Trauson Shareholders should consider not accepting the Share Offer and should seek to sell their Shares on the market.

Those Trauson Shareholders who, after considering the information on the Offeror Group and the future intentions of the Offeror Group regarding Trauson Group, are attracted by the future prospects of Trauson Group following the Offers, may consider retaining some or all of their Shares. However, as set out in the letter from Barclays contained in the Composite Document that it is the intention of the Offeror that if the Offeror receives valid acceptances of the Share Offer for not less than 90% voting rights in Trauson, the Offeror will exercise any rights it may have under the provisions of the Cayman Islands Companies Law to acquire compulsorily any outstanding Shares and to apply for a withdrawal of listing of the Shares from the Stock Exchange.

Trauson Shareholders should also be aware that, if (1) the Offeror does not effect the compulsory acquisition rights but proceeds with the Offers (whether by reason of waiving the Condition (a) or otherwise); and (2) the number of Shares held by the public, as defined in the Listing Rules, comprises less than 25% of the issued Shares of the Company at the close of the Offers, trading in the Shares may be suspended. Should this happen, Trauson Shareholders who choose not to accept the Offers will not be able to sell their Shares on the Stock Exchange until trading in the Shares resumes. If a placing exercise is required to increase the Shares in public float, we consider that this may put pressure on the market price. Trauson Shareholders should also consider all these matters before making their decision whether to accept the Share Offer.

### **In respect of the Option Offer**

The cancellation prices for the Options are determined by reference to the Share Offer Price of HK\$7.50 and the exercise prices of the Options ranging from HK\$2.17 to HK\$3.06. On the basis that, (i) given our view that the terms of the Share Offer (including the Share Offer Price) are fair and reasonable; (ii) all the outstanding Options are in-the-money (i.e. exercise prices being below the Share Offer Price); (iii) the cancellation prices of the Options are based on the “see-through” principle; and (iv) any Options which remain unexercised will lapse automatically and not be exercisable on the expiry of the 14-day period after the date on which the offer becomes or is declared unconditional in accordance with the terms

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of the Share Option Scheme regardless of whether Trauson will remain listed or not after the Offers, we consider that the terms of the Option Offer are fair and reasonable so far as Trauson Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend Trauson Optionholders to accept the Option Offer.

However, should the market price of the Shares exceed the Share Offer Price during the Offer Period and Trauson Optionholders wish to realise a higher value for their Options, they should consider exercising their Options in accordance with the Share Option Scheme and selling in the market the Shares issued to them, if the net proceeds after deducting the expenses from such sale would be greater than the net proceeds receivable pursuant to the Option Offer.

The procedures for acceptance of the Offers are set out in Appendix I to the Composite Document and the accompanying Forms of Acceptance. The latest time for acceptance of the Offers on the first Closing Date (unless extended by the Offeror) is 4:00 p.m. on March 1, 2013. Trauson Shareholders and Trauson Optionholders are urged to act according to this timetable if they wish to accept the Offers.

### **In respect of the Service Agreements**

Having taken into account the principal factors and reasons set out in the paragraph headed “The Service Agreements” above, we consider that the terms of the Service Agreements are fair and reasonable so far as the Independent Trauson Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Trauson Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Service Agreements.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*

## 1. PROCEDURES FOR ACCEPTANCE OF THE OFFERS

### 1.1 The Share Offer

To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name and you wish to accept the Share Offer, you must send the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in any event no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own and you wish to accept the Share Offer in full or in part, you must either:

- (a) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar; or
- (b) arrange for the Shares to be registered in your name by Trauson, through the Registrar, and send the duly completed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (c) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees. In order to meet the deadline set by HKSCC Nominees, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (d) if your Shares have been lodged with your Investor Participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System before the deadline set by HKSCC Nominees.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificates and/or transfer receipt(s) and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter.

If you have lost your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not received your Share certificate(s) and you wish to accept the Share Offer, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by you. Such action will be deemed to be an irrevocable authority to the Offeror to collect from Trauson or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Share Offer, as if it/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

An acceptance of the Share Offer may not be counted as valid unless:

- (a) it is received by the Registrar on or before 4:00 p.m. on the Closing Date or such time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, and the Registrar has recorded that such acceptance and any relevant documents required under paragraph (b) below have been so received; and
- (b) the **WHITE** Form of Share Offer Acceptance is duly completed and signed and is:
  - (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or



- (ii) from a registered Trauson Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under the other sub-paragraphs of this paragraph (b)); or
- (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Trauson Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

No acknowledgment of receipt of any **WHITE** Form of Share Offer Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

## 1.2 The Option Offer

If you accept the Option Offer, you should complete the **PINK** Form of Option Offer Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer. The Options will be categorised in different categories each called “**Option Class**” by virtue of the exercise price of each Option.

The completed **PINK** Form of Option Offer Acceptance should be forwarded, together with the relevant certificate(s) of the Options (if applicable) under the Option Class you intend to tender, stating the number of Shares underlying the Options in respect of which you intend to accept the Option Offer for those Options in respect of the same Option Class, by post or by hand to the Registrar as soon as possible and in any event so as to reach the Registrar at the aforesaid address no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive.

If the certificate(s) in respect of your Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Option Offer, the **PINK** Form of Option Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Option certificate(s) (if applicable) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Option certificate(s) (if applicable), you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

If the certificate(s) in respect of your Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, you must exercise the Options to the extent exercisable as indicated in section 3 in this Appendix below, but so that the relevant exercise notice, cheque for the subscription monies and the **WHITE** Form of Share Offer Acceptance must reach the Registrar on or before the first Closing Date. You should also write to Trauson requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to Trauson with a copy delivered to the Registrar.

No stamp duty will be deducted from the amount paid to Trauson Optionholders who accept the Option Offer.

No acknowledgment of receipt of any **PINK** Form of Option Offer Acceptance and/or certificate(s) of the Options (if applicable) will be given.

## **2. SETTLEMENT**

### **2.1 The Share Offer**

If you accept the Share Offer, settlement of the consideration (less seller's ad valorem stamp duty) will be made by cheque as soon as possible, but in any event within seven Business Days of the date of receipt of a complete and valid acceptance of the Share Offer, or of the date on which the Offers become or are declared unconditional in all respects, whichever is the later. Each cheque will be despatched by ordinary post to the address specified on the relevant Trauson Shareholder's **WHITE** Form of Share Offer Acceptance at his/her own risk.

No fractions of a cent will be payable and the amount of cash consideration payable to a Trauson Shareholder who accepts the Share Offer will be rounded down to the nearest cent.

### **2.2 The Option Offer**

If you accept the Option Offer, settlement of the consideration will be made by cheque as soon as possible, but in any event within seven Business Days of the date of receipt of a complete and valid acceptance of the Option Offer, or of the date on which the Offers become or are declared unconditional in all respects, whichever is the later. Each cheque will be despatched by ordinary post at the own risk of the relevant Trauson Optionholder to the office of Trauson Group in Hong Kong at Unit A, 17th Floor, Winbase Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong for collection.

No fractions of a cent will be payable and the amount of cash consideration payable to a Trauson Optionholder who accepts the Option Offer will be rounded down to the nearest cent.

### 3. EXERCISE OF OPTIONS

A Trauson Optionholder who wishes to accept the Share Offer may exercise his/her Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the Options together with a cheque for payment of the subscription monies and the related certificates (if applicable) for the Options to Trauson at 9 Longmen Road, Wujin High-tech Industrial Development Zone, Changzhou City, Jiangsu Province, PRC on or before the first Closing Date, or such other time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce. Trauson Optionholder should at the same time complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to Trauson for exercising the Options. Exercise of the Options is subject to the terms and conditions of the Share Option Scheme and the terms attaching to the grant of the relevant Options. Delivery of the completed and signed **WHITE** Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the Options but will only be deemed to be an irrevocable authority to the Offeror and/or Barclays and/or any of their respective agent(s) or such other person(s) as they may direct to collect from Trauson or the Registrar on his/her behalf the relevant Share certificate(s) when issued on exercise of the Options as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance. If a Trauson Optionholder fails to exercise his/her Options as aforesaid, there is no guarantee that Trauson may issue the relevant Share certificate in respect of the Shares allotted pursuant to his/her exercise of the Option(s) to such Trauson Optionholder in time for him/her to accept the Share Offer as a Trauson Shareholder of such Shares under the terms of the Share Offer.

### 4. LAPSE OF OPTIONS

Nothing in this Composite Document or the Option Offer will serve to extend the life of any Option which lapses under the Share Option Scheme. No exercise of Options or acceptance of the Option Offer may be made in relation to any Option that has lapsed.

### 5. ACCEPTANCE PERIOD AND REVISIONS

Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.

If the Offers are extended, the announcement of such extension will state the next Closing Date or a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to Trauson Shareholders and Trauson Optionholders before the Offers are closed. If, in the course of the Offers, the Offeror revises the term of the Offers, all Trauson Shareholders and Trauson Optionholders, whether or not they have already accepted the Share Offer and the Option Offer, respectively, will be entitled to accept the revised Share Offer and the revised Option Offer, respectively, under the revised term. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

**6. ANNOUNCEMENTS**

By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision and extension of the Offers. The Offeror must publish an announcement in accordance with the Listing Rules on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended or expired. The announcement will state the following:

- (i) the total number of Shares and rights over Shares for which acceptances of the Offers have been received;
- (ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror and its Concert Parties before the Offer Period;
- (iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by the Offeror and its Concert Parties; and
- (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Trauson which the Offeror and any of its Concert Parties have borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

The announcement will specify the percentages of the relevant classes of share capital, and the percentages of voting rights represented by these numbers of Shares.

In computing the total number of Shares and Options represented by acceptances, for announcement purposes, acceptances which are in all respects in complete and good order or that have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Listing Rules.

**7. NOMINEE REGISTRATION**

To ensure equality of treatment of all Trauson Shareholders, those Trauson Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in the names of nominees, to accept the Share Offer, it is essential that they provide instructions of their intentions with regard to the Share Offer to their nominees.

All documents and remittances sent to Trauson Shareholders and Trauson Optionholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to Trauson Shareholders and Trauson Optionholders at their addresses, in the case of Trauson Shareholders, specified on the relevant Trauson Shareholder's **WHITE** Form of Share Offer Acceptance, and in the case of Trauson Optionholders to the office of Trauson Group in Hong Kong at Unit A, 17th Floor, Winbase

Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong. None of the Offeror Parent, the Offeror, Trauson, Barclays, the Registrar or any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

## **8. RIGHT OF WITHDRAWAL**

The Share Offer is conditional upon fulfilment of the Conditions set out in the letter from Barclays in this Composite Document and the Option Offer is conditional upon the Share Offer becoming and being declared unconditional in all respects. Acceptance of the Share Offer and the Option Offer tendered by Trauson Shareholders and Trauson Optionholders, respectively, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Share Offer or the Option Offer shall be entitled to withdraw his/her/its consent within 21 days from the first Closing Date (being March 22, 2013) and if the Offers have not by then become unconditional as to acceptances. An acceptor of the Share Offer or the Option Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar.

Under Rule 19.2 of the Takeovers Code, if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers set out in section 6 of this Appendix, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

## **9. SHARES**

Acceptance of the Share Offer or the Option Offer by Trauson Shareholders or Trauson Optionholders, respectively, will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Share Offer or Options tendered under the Option Offer (as the case may be) are sold or tendered by Trauson Shareholders or Trauson Optionholders (as the case may be) free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the Closing Date or subsequently becoming attached to it, including, without limitation, in the case of the Shares, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Closing Date.

## **10. HONG KONG STAMP DUTY**

Sellers' ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Trauson Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of (i) the market value of the Shares; or (ii) the consideration payable by the Offeror for such person's Shares, whichever is higher, and will be deducted from the cash amount due to such accepting Trauson Shareholder. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and, subject to such deduction aforesaid will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptance under the Share Offer.

**11. GENERAL**

- (a) All communications, notices, the Forms of Acceptance, Share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from Trauson Shareholders and Trauson Optionholders will be delivered by or sent to or from them, or their designated agents, through post at their own risk, and none of the Offeror Parent, the Offeror, Trauson, the Registrar or any of their respective directors or agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance form part of the terms of the Share Offer and the Option Offer, respectively.
- (c) The accidental omission to despatch this Composite Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate either of the Share Offer or the Option Offer in any way.
- (d) The Share Offer and the Option Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of a **WHITE** Form of Share Offer Acceptance will constitute an authority to the Offeror, any Offeror Directors, Barclays or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares in respect of which such person or persons has/have accepted the Share Offer.
- (f) The settlement of the consideration to which any Trauson Shareholder or Trauson Optionholder is entitled under the Share Offer and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Share Offer and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Trauson Shareholder or Trauson Optionholder.
- (g) Any Trauson Shareholders or Trauson Optionholders accepting the Share Offer or the Option Offer respectively will be responsible for payment of any transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.
- (h) In making their decision, Trauson Shareholders and Trauson Optionholders must rely on their own examination of Trauson Group and the terms of the Share Offer and the Option Offer, respectively, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror Parent, the Offeror, Trauson, Barclays, the Independent Financial Adviser or their respective professional advisers. Trauson Shareholders and Trauson Optionholders should consult their own professional advisers for professional advice.

- (i) References to the Share Offer or the Option Offer in this Composite Document and in the Forms of Acceptance shall include any extension and/or revision thereof.
- (j) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Share Offer and the Option Offer in Hong Kong and the operating rules of the Stock Exchange.

## 1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the financial results of Trauson Group for each of the three years ended December 31, 2011 as extracted from the annual reports of Trauson for the years ended December 31, 2011 and 2010, respectively, and for the six months ended June 30, 2012 as extracted from the 2012 interim report of Trauson. The auditors of Trauson for the three years ended December 31, 2011, Deloitte Touche Tohmatsu, did not issue any qualified opinion on the financial statements of Trauson Group for any of the three years ended December 31, 2011.

Trauson Group had no profit or loss attributable to minority interest or exceptional or extraordinary items for the three years ended December 31, 2011 and the six months ended June 30, 2012.

## (i) Consolidated statement of comprehensive income

	Six months ended June 30,		Year ended December 31,		
	2012	2011	2011	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>			
Revenue	205,869	160,420	384,841	290,742	211,485
Cost of sales	(68,854)	(47,115)	(109,067)	(79,378)	(62,262)
Gross Profit	137,015	113,305	275,774	211,364	149,223
Other income and other gains and losses	9,773	(129)	14,579	(2,311)	1,094
Distribution and selling expenses	(17,348)	(12,422)	(26,913)	(17,896)	(21,431)
Administrative and general expenses	(35,229)	(29,840)	(62,194)	(36,725)	(21,411)
Research and development expenses	(12,143)	(6,758)	(15,763)	(10,617)	(9,710)
Other expenses	(617)	(311)	(598)	(13,906)	(2,536)
Interest expenses in relation to bank loans wholly repayable within five years	–	–	–	(325)	(846)
Share of loss of an associate	–	–	–	–	(322)
Profit before tax	81,451	63,845	181,885	129,584	94,061
Income tax expense	(16,808)	(13,445)	(40,771)	(23,325)	(11,882)
Profit for the period and total comprehensive income for the period	64,643	50,400	141,114	106,259	82,179
Attributable to owners of the Company	64,643	50,400	141,114	106,259	82,179
Dividends	32,232	25,010	125,531	27,644	–
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Dividends per share	4.17 cents	3.23 cents	16.23 cents	3.57 cents	–
Earnings per share - basic	0.083	0.065	0.18	0.16	0.15
Earnings per share - diluted	0.083	0.065	0.18	N/A	N/A



## (ii) Condensed consolidated statement of financial position

	As at	Year ended December 31,		
	June 30, 2012 <i>RMB'000</i> ( <i>unaudited</i> )	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Total assets	1,145,088	1,134,239	1,022,781	339,468
Total liabilities	135,790	91,466	69,402	103,375
Net assets	<u>1,009,298</u>	<u>1,042,773</u>	<u>953,379</u>	<u>236,093</u>
<b>Capital and reserves</b>				
Share capital	68,141	68,141	68,141	20
Reserves	941,157	974,632	885,238	236,073
Total equity attributable to owners of the Company	<u>1,009,298</u>	<u>1,042,773</u>	<u>953,379</u>	<u>236,093</u>

## 2. AUDITED FINANCIAL INFORMATION

The following financial information has been extracted from the annual report of Trauson for the year ended December 31, 2011.

**Consolidated Statement of Comprehensive Income**

*For the year ended 31 December 2011*

	<i>Notes</i>	<b>2011</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
Revenue	7	384,841	290,742
Cost of sales		(109,067)	(79,378)
		<hr/>	<hr/>
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)
		<hr/>	<hr/>
Profit before tax	10	181,885	129,584
Income tax expense	12	(40,771)	(23,325)
		<hr/>	<hr/>
Profit for the year and total comprehensive income for the year		141,114	106,259
		<hr/> <hr/>	<hr/> <hr/>
Profit for the year attributable to owners of the Company		141,114	106,259
		<hr/> <hr/>	<hr/> <hr/>
		<i>RMB</i>	<i>RMB</i>
Earnings per share – Basic and diluted	13	0.18	0.16
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated Statement of Financial Position***At 31 December 2011*

	<i>Notes</i>	<b>2011</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
<b>Non-current assets</b>			
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
		<u>219,979</u>	<u>179,895</u>
<b>Current assets</b>			
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
		<u>914,260</u>	<u>842,886</u>
<b>Current liabilities</b>			
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
		<u>81,643</u>	<u>59,813</u>
Net current assets		<u>832,617</u>	<u>783,073</u>
Total assets less current liabilities		<u>1,052,596</u>	<u>962,968</u>

		<b>2011</b>	<b>2010</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	6,937	4,118
Deferred income	24	2,886	5,471
		<u>9,823</u>	<u>9,589</u>
Net assets		<u>1,042,773</u>	<u>953,379</u>
<b>Capital and reserves</b>			
Share capital	25	68,141	68,141
Reserves	26	974,632	885,238
		<u>1,042,773</u>	<u>953,379</u>
Total equity attributable to owners of the Company		<u>1,042,773</u>	<u>953,379</u>

**Consolidated Statement of Changes in Equity***For the year ended 31 December 2011*

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Share options reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
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 ( <i>Note 26</i> )	49,480	118,592	(168,072)	–	–	–	–
Dividends ( <i>Note 14</i> )	–	–	–	–	–	(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 ( <i>Note 31</i> )	–	–	–	934	–	–	934
Dividends ( <i>Note 14</i> )	–	–	–	–	–	(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*

	<b>2011</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Operating activities</b>		
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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Net cash generated from operations	116,346	111,965
PRC income tax paid	(30,276)	(17,062)
	<hr/>	<hr/>
Net cash from operating activities	86,070	94,903
	<hr/>	<hr/>
<b>Investing activities</b>		
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
	<hr/>	<hr/>
Net cash used in investing activities	(36,192)	(31,714)
	<hr/>	<hr/>

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Financing activities</b>		
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)
	<hr/>	<hr/>
Net cash (used in) from financing activities	(52,654)	577,183
	<hr/>	<hr/>
<b>Net (decrease) increase in cash and cash equivalents</b>	(2,776)	640,372
<b>Cash and cash equivalents at beginning of the year</b>	698,766	58,394
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year, represented by</b>		
Bank balances and cash	695,990	698,766
	<hr/> <hr/>	<hr/> <hr/>

## 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 HKAS 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010 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.

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



- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2013
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2015
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2012
- <sup>5</sup> Effective for annual periods beginning on or after 1 July 2012
- <sup>6</sup> 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”.

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.

**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.

**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.

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.

#### **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.

**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.

**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.

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.

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.

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.

*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.

#### *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.

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.

#### **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).

*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.

## 6. FINANCIAL INSTRUMENTS

## 6A. Categories of financial instruments

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

## 6B. Financial risk management objectives and policies

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 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
US\$	21,777	25,714	–	246
HK\$	3,628	576,038	–	–
EUR	731	–	–	–

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
	<i>RMB'000</i>	<i>RMB'000</i>
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.

*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.

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 RMB'000	Carrying amount 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
		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
		33,952	33,952

#### 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

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
	<u>384,841</u>	<u>290,742</u>
Total revenue		
Segment profit		
Trauma products	199,190	149,766
Spine products	49,017	28,053
OEM products	26,846	32,191
Others	721	1,354
	<u>275,774</u>	<u>211,364</u>
Total segment profit		
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)
	<u>181,885</u>	<u>129,584</u>
Profit before tax		
Income tax expense	(40,771)	(23,325)
	<u>141,114</u>	<u>106,259</u>
Profit for the year and total comprehensive income for the year		

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

#### 8. OTHER INCOME AND OTHER GAINS AND LOSSES

	2011 RMB'000	2010 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
	<u>14,579</u>	<u>(2,311)</u>

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 RMB'000	2010 RMB'000
Donation	505	205
Legal and professional fees (Note)	–	13,685
Others	93	16
	<u>598</u>	<u>13,906</u>

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.



## 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	–
	<hr/>	<hr/>
Total staff costs	79,522	62,474
	<hr/>	<hr/>
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)
	<hr/> <hr/>	<hr/> <hr/>

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.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related bonuses RMB'000 (note)	Retirement benefit schemes contributions RMB'000	Total RMB'000
<b>2011:</b>					
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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	785	2,248	3,741	9	6,783
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i> <i>(note)</i>	Retirement benefit schemes contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2010:</b>					
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
	<u>1,206</u>	<u>1,703</u>	<u>1,281</u>	<u>7</u>	<u>4,197</u>

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

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

Their emoluments were within the following bands:

	2011 No. of employees	2010 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
	<u>–</u>	<u>1</u>

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.

## 12. INCOME TAX EXPENSE

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
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
	<u>40,771</u>	<u>23,325</u>

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.

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit before tax	<u>181,885</u>	<u>129,584</u>
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	<u>40,771</u>	<u>23,325</u>

## 13. EARNINGS PER SHARE

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

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

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 <i>RMB'000</i>	2010 <i>RMB'000</i>
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
	<u>52,654</u>	<u>13,414</u>

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.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
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%

## 16. PREPAID LEASE PAYMENTS

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

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

## 17. INTANGIBLE ASSET

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

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

## 18. DEFERRED TAXATION

For the 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 <i>RMB'000</i>	2010 <i>RMB'000</i>
Deferred tax assets	7,580	5,150
Deferred tax liabilities	<u>(6,937)</u>	<u>(4,118)</u>
	<u><u>643</u></u>	<u><u>1,032</u></u>

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

	Write-down of inventories <i>RMB'000</i>	Deferred income <i>RMB'000</i>	Other provisions <i>RMB'000</i>	Withholding tax on undistributed profits <i>RMB'000</i>	Total <i>RMB'000</i>
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.

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

The Group allows credit period ranging from 0 to 90 days to its trade customers. The ageing of trade receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
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
	<u>142,892</u>	<u>84,787</u>

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 <i>RMB'000</i>	2010 <i>RMB'000</i>
At beginning of the year	3,294	2,119
Impairment losses recognised on trade receivables	9,163	1,175
	<u>12,457</u>	<u>3,294</u>

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors of the Company believe that no further allowance is required.



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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
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 <i>RMB'000</i>	2010 <i>RMB'000</i>
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.

## 22. TRADE AND OTHER PAYABLES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
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
	<u>61,262</u>	<u>49,202</u>

Trade payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the date when the goods are received and accepted at the end of the reporting period. The ageing of trade payables is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
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
	<u>10,823</u>	<u>12,169</u>

## 23. AMOUNTS DUE TO RELATED PARTIES

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

*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 <i>RMB'000</i>	2010 <i>RMB'000</i>
0 to 90 days	<u>275</u>	<u>200</u>

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.

## 25. SHARE CAPITAL

	Number of shares	Amounts HKD'000
Ordinary shares of HK\$0.10 each:		
<i>Authorised</i>		
At date of incorporation, at 31 December 2010 and 2011	100,000,000,000	10,000,000
<i>Issued and fully paid</i>		
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.
- 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.

**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 <i>RMB'000</i>	2010 <i>RMB'000</i>
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.

## 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 contribute 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.

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

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.

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

*Note:* Jiangsu Chuangying is a subsidiary of Duoliang Investment.

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

## 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		Principal activities
			2011	2010	
Trauson Holdings (BVI) Company Limited ( <i>Note</i> )	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



## 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 <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Assets</b>		
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
	<u>741,797</u>	<u>770,519</u>
<b>Liabilities</b>		
Other payables	5	4
Amounts due to subsidiaries	1,887	585
	<u>1,892</u>	<u>589</u>
Net assets	<u><u>739,905</u></u>	<u><u>769,930</u></u>
Share capital	68,141	68,141
Reserves	671,764	701,789
Total equity	<u><u>739,905</u></u>	<u><u>769,930</u></u>

## 3. UNAUDITED FINANCIAL INFORMATION

The following financial information has been extracted from the interim report of Trauson for the six months ended June 30, 2012.

**Condensed Consolidated Statement of Comprehensive Income**

*For the six months ended 30 June 2012*

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30.6.2012</b>	<b>30.6.2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	205,869	160,420
Cost of sales		(68,854)	(47,115)
Gross profit		137,015	113,305
Other income and other gains and losses	4	9,773	(129)
Distribution and selling expenses		(17,348)	(12,422)
Administrative expenses		(35,229)	(29,840)
Research and development expenses		(12,143)	(6,758)
Other expenses		(617)	(311)
Profit before tax	5	81,451	63,845
Income tax expense	6	(16,808)	(13,445)
Profit for the period and total comprehensive income for the period		64,643	50,400
Attributable to owners of the Company		64,643	50,400
		<i>RMB</i>	<i>RMB</i>
Earnings per share – Basic and diluted	7	0.083	0.065

**Condensed Consolidated Statement of Financial Position***At 30 June 2012*

	<i>Notes</i>	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	257,005	171,428
Prepaid lease payments	10	33,994	18,896
Deposit for acquisition of land use rights and property, plant and equipment		18,933	12,988
Intangible asset		13,706	9,087
Pledged bank deposit	12	11,200	–
Deferred tax assets	11	10,924	7,580
		<u>345,762</u>	<u>219,979</u>
<b>Current assets</b>			
Inventories		97,682	61,460
Trade and other receivables	13	246,589	156,387
Prepaid lease payments		735	423
Bank balances and cash		454,320	695,990
		<u>799,326</u>	<u>914,260</u>
<b>Current liabilities</b>			
Trade and other payables	14	86,607	61,262
Amounts due to related parties	20	1,131	275
Tax liabilities		20,160	19,086
Deferred income	15	4,849	1,020
		<u>112,747</u>	<u>81,643</u>
Net current assets		<u>686,579</u>	<u>832,617</u>
Total assets less current liabilities		<u>1,032,341</u>	<u>1,052,596</u>

		<b>30.6.2012</b>	<b>31.12.2011</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
<b>Non-current liabilities</b>			
Deferred tax liabilities	11	5,183	6,937
Deferred income	15	17,860	2,886
		<hr/>	<hr/>
		23,043	9,823
		<hr/>	<hr/>
Net assets		<u>1,009,298</u>	<u>1,042,773</u>
<b>Capital and reserves</b>			
Share capital	16	68,141	68,141
Reserves		941,157	974,632
		<hr/>	<hr/>
Total equity attributable to owners of the Company		<u>1,009,298</u>	<u>1,042,773</u>

**Condensed Consolidated Statement of Changes In Equity***For the six months ended 30 June 2012*

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Share options reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011 (audited)	68,141	724,392	(165,148)	–	36,167	289,827	953,379
Profit for the period and total comprehensive income for the period	–	–	–	–	–	50,400	50,400
Dividend	–	–	–	–	–	(27,644)	(27,644)
At 30 June 2011 (unaudited)	<u>68,141</u>	<u>724,392</u>	<u>(165,148)</u>	<u>–</u>	<u>36,167</u>	<u>312,583</u>	<u>976,135</u>
At 1 January 2012 (audited)	68,141	724,392	(165,148)	934	52,989	361,465	1,042,773
Profit for the period and total comprehensive income for the period	–	–	–	–	–	64,643	64,643
Recognition of equity-settled share-based payments ( <i>note 18</i> )	–	–	–	2,403	–	–	2,403
Dividends	–	–	–	–	–	(100,521)	(100,521)
At 30 June 2012 (unaudited)	<u>68,141</u>	<u>724,392</u>	<u>(165,148)</u>	<u>3,337</u>	<u>52,989</u>	<u>325,587</u>	<u>1,009,298</u>

**Condensed Consolidated Statement of Cash Flows***For the six months ended 30 June 2012*

	<b>Six months ended</b>	
	<b>30.6.2012</b>	<b>30.6.2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Net cash (used in) from operating activities</b>	(17,865)	19,864
<b>Net cash used in investing activities</b>		
Proceeds from disposal of property, plant and equipment	4,183	11
Interest received	1,142	5,722
Purchase of available-for-sale investments	(1,263,000)	–
Payments for acquisition of property, plant and equipment	(118,037)	(9,893)
Payments for land use rights	(2,688)	–
Increase in pledged bank deposit	(11,200)	–
Proceeds from disposal of available-for-sale investments	1,270,935	–
Development costs paid and capitalised	(4,619)	(1,855)
	<u>(123,284)</u>	<u>(6,015)</u>
<b>Net cash used in financing activities</b>		
Dividend paid	(100,521)	(27,644)
	<u>(100,521)</u>	<u>(27,644)</u>
<b>Net decrease in cash and cash equivalents</b>	(241,670)	(13,795)
<b>Cash and cash equivalents at beginning of the period</b>	695,990	698,766
	<u>695,990</u>	<u>698,766</u>
<b>Cash and cash equivalents at end of the period, represented by</b>		
Bank balances and cash	454,320	684,971
	<u><u>454,320</u></u>	<u><u>684,971</u></u>

**Notes to the Condensed Consolidated Financial Statements**

*For the six months ended 30 June 2012*

**1. GENERAL INFORMATION AND BASIS OF PREPARATION**

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 “Stock Exchange”) with effect from 29 June 2010. The immediate and ultimate holding company is Luna Group Holdings Limited, a company incorporated in the British Virgin Islands and wholly owned by Ms. Xu Yan Hua (“Ms Xu”), who is a non-executive director of the Company.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed 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. PRINCIPAL ACCOUNTING POLICIES**

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

Except as described below, the accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2012 are consistent with those followed in the preparation of the Company’s consolidated financial statements for the year ended 31 December 2011.

**Revenue recognition**

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined by reference to the proportion of cost incurred compared to the total estimated cost of providing the services.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the current interim period. The application of those amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended	
	30.6.2012	30.6.2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Segment revenue		
Trauma products	114,433	98,093
Spine products	43,470	22,298
OEM products	26,252	28,526
Others	21,714	11,503
	<u>205,869</u>	<u>160,420</u>
Total revenue	<u><u>205,869</u></u>	<u><u>160,420</u></u>
Segment profit		
Trauma products	87,573	80,034
Spine products	34,503	18,495
OEM products	10,826	13,783
Others	4,113	993
	<u>137,015</u>	<u>113,305</u>
Total segment profit	137,015	113,305
Unallocated income and other gains and losses	9,773	(129)
Unallocated expenses:		
Distribution and selling expenses	(17,348)	(12,422)
Administrative expenses	(35,229)	(29,840)
Research and development expenses	(12,143)	(6,758)
Other expenses	(617)	(311)
	<u>81,451</u>	<u>63,845</u>
Profit before tax	<u><u>81,451</u></u>	<u><u>63,845</u></u>

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. 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.

Substantially all of the Group's revenue is derived from the People's Republic of China (the "PRC"), the place of domicile of relevant group entities, except for customer A in the OEM products segment, which accounts for 13% of the Group's revenue for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 18%) and is derived from the United States of America and insignificant revenue generated from export sales to other countries.



## 4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2012	30.6.2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	1,142	8,374
Gain on disposal of available-for-sale investments	7,935	–
Government grants	1,505	1,416
Net foreign exchange loss	(319)	(9,934)
Loss on disposal of property, plant and equipment	(149)	(59)
Others	(341)	74
	<u>9,773</u>	<u>(129)</u>

## 5. PROFIT BEFORE TAX

	Six months ended	
	30.6.2012	30.6.2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	9,195	6,973
Impairment losses on trade receivables	2,527	1,775
Write-down of inventories ( <i>Note</i> )	2,766	1,664
	<u>14,488</u>	<u>10,412</u>

*Note:* The amount is included in cost of sales and represented the write-down of inventories.

## 6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2012	30.6.2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
PRC enterprise income tax (“EIT”)	16,156	10,279
Withholding tax on PRC dividends paid	5,750	4,250
Deferred tax credit:		
Current period	(5,098)	(1,084)
	<u>16,808</u>	<u>13,445</u>

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”), are both foreign investment enterprises registered in Changzhou city, Jiangsu province in the PRC. Trauson China is awarded as being a high-technology enterprise and is entitled to a preferential tax rate at 15% for 3 years from 1 October 2011 to 30 September 2014. Changzhou Orthmed is entitled to an exemption from EIT for two years starting from 2008, their first profit-making year, followed by a 50% tax relief for the following three years ending 31 December 2012.

**7. EARNINGS PER SHARE**

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

	<b>Six months ended</b>	
	<b>30.6.2012</b>	<b>30.6.2011</b>
	(Unaudited)	(Unaudited)
<b>Profit</b>		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	64,643	50,400
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	774,328,625	774,328,625

For the six months ended 30 June 2012, 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 are the same as the basic earnings per share for the six months ended 30 June 2012.

The Group had no potential ordinary shares throughout the six months ended 30 June 2011.

**8. DIVIDENDS**

During the current interim period, a final dividend of RMB3.79 cents per share (for the six months ended 30 June 2011: RMB3.57 cents) and a special dividend of RMB9.21 cents (for the six months ended 30 June 2011: nil) in aggregate of approximately RMB100,521,000 (for the six months ended 30 June 2011: RMB27,644,000), in respect of the year ended 31 December 2011 was declared and paid to owners of the Company.

Subsequent to 30 June 2012, the directors of the Company have determined that an interim dividend of RMB2.17 cents and a special dividend of RMB2.00 cents per share (subsequent to 30 June 2011: an interim dividend of RMB1.68 cents and a special dividend of RM1.55 cents per share) will be paid to the owners of the Company, whose names appear in the register of members of the Company on 20 September 2012 (30 June 2011: on 22 September 2011).

**9. PROPERTY, PLANT AND EQUIPMENT**

During the current period, the Group incurred approximately RMB54,885,000 for construction of new production plant and office, acquired motor vehicles of approximately RMB10,854,000 for expansion of operations and marketing and purchased machineries and equipment amounted to approximately RMB33,365,000 for expansion of production plant. During the six months ended 30 June 2011, the Group spent approximately RMB1,386,000 on motor vehicles and incurred approximately RMB8,507,000 on machineries and equipment.

During the current period, the Group disposed of certain machineries and motor vehicles with a carrying amount of approximately RMB4,332,000 for cash proceeds of approximately RMB4,183,000 resulting in a loss on disposal of approximately RMB149,000. During the six months ended 30 June 2011, the Group disposed of certain machineries with a carrying amount of approximately RMB70,000 for cash proceeds of approximately RMB11,000 resulting in a loss on disposal of approximately RMB59,000.

**10. PREPAID LEASE PAYMENT**

During the current period, the Group incurred approximately RMB15,597,000 to obtain land use rights for construction of new research center.

## 11. DEFERRED TAXATION

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

	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
Deferred tax assets	10,924	7,580
Deferred tax liabilities	(5,183)	(6,937)
	<u>5,741</u>	<u>643</u>

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

	Write-down of inventories <i>RMB'000</i>	Deferred income <i>RMB'000</i>	Other provisions <i>RMB'000</i>	Withholding tax on undistributed profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2012 (audited)	2,295	692	4,593	(6,937)	643
Reversal upon payment of withholding tax	-	-	-	5,750	5,750
Credit (charge) to condensed consolidated statement of comprehensive income for the period	(121)	2,820	645	(3,996)	(652)
At 30 June 2012 (unaudited)	<u>2,174</u>	<u>3,512</u>	<u>5,238</u>	<u>(5,183)</u>	<u>5,741</u>

## 12. PLEDGED BANK DEPOSIT

Pledged bank deposits amounting to RMB11,200,000 (31 December 2011: nil) represent deposits pledged to a bank to secure a guarantee issued by a subsidiary of the Company. The pledged bank deposits will be released when the guarantee expires.

## 13. TRADE AND OTHER RECEIVABLES

	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
Trade receivables	250,375	155,349
Less: allowance for doubtful debts	(14,984)	(12,457)
	<u>235,391</u>	<u>142,892</u>
Advance to suppliers	6,556	7,460
Other receivables	1,755	2,623
Deposits	1,548	2,191
Prepaid expenses	1,339	1,221
	<u>246,589</u>	<u>156,387</u>

Generally, the Group allows credit period ranging from 0 to 90 days to its trade customers. From time to time, for certain key customers, the Group may grant longer credit periods ranging from 6 months to 3 years. 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:

	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
0 to 90 days	156,311	125,028
91 to 180 days	22,359	14,315
181 to 360 days	55,503	3,319
Over 360 days	1,218	230
	<u>235,391</u>	<u>142,892</u>

#### 14. TRADE AND OTHER PAYABLES

	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
Trade payables	40,833	10,823
Advance from customers	3,008	2,874
Payroll payables	18,530	19,710
Accrued expenses	13,641	10,151
Other tax liabilities	8,397	13,155
Other payables	2,198	4,549
	<u>86,607</u>	<u>61,262</u>

Trade payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the date when the goods are received and accepted at the end of the reporting period. The ageing of trade payables is as follows:

	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
0 to 90 days	38,817	9,835
91 to 180 days	1,467	256
181 to 360 days	398	51
Over 360 days	151	681
	<u>40,833</u>	<u>10,823</u>

## 15. DEFERRED INCOME

	30.6.2012 <i>RMB'000</i> (Unaudited)	31.12.2011 <i>RMB'000</i> (Audited)
Arising from services not yet delivered ( <i>Note a</i> )	19,413	–
Arising from government grants ( <i>Note b</i> )	3,296	3,906
	<u>22,709</u>	<u>3,906</u>
Analysed for reporting purposes as:		
Current liabilities	4,849	1,020
Non-current liabilities	17,860	2,886
	<u>22,709</u>	<u>3,906</u>

*Note a:* Deferred income arising from services not yet delivered represents services which have not been delivered to customers at the end of the reporting period. It will be recognised in profit or loss by reference to the stage of completion of the services.

*Note b:* Deferred income arising from government grants 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.

## 16. SHARE CAPITAL

	Number of shares	Amounts <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each:		
<b>Authorised</b>		
At date of incorporation, at 1 January 2011 (audited), 31 December 2011 (audited) and 30 June 2012 (unaudited)	100,000,000,000	10,000,000
<b>Issued and fully paid</b>		
At 1 January 2011 (audited), 31 December 2011 (audited), and 30 June 2012 (unaudited)	774,328,625	77,433
		<i>RMB'000</i>
Shown in the condensed consolidated statement of financial position:		
At 30 June 2012 (unaudited)		<u>68,141</u>
At 31 December 2011 (audited)		<u>68,141</u>

**17. 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 30 June 2012, such claims amounted to approximately RMB1.7 million (31 December 2011: RMB1.4 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 30 June 2012.

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 ten 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 condensed consolidated financial statements.

**18. SHARE-BASED PAYMENTS**

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.

The following table discloses movements of the Company's share options during the period:

	<b>Share options</b>
Granted on 12 October 2011 and outstanding as at 1 January 2012	16,080,000
Granted during the period	8,800,000
Forfeited during the period	(1,800,000)
	<hr/>
Outstanding as at 30 June 2012	<u>23,080,000</u>

Details of share options granted during the period are as follows:

<b>Option series</b>	<b>Share option granted</b>	<b>Date of grant</b>	<b>Vesting proportion</b>	<b>Exercise period</b>	<b>Exercise price HK\$</b>
2012A	4,000,000	26/04/2012	25%	26/04/2013-26/04/2022	3.06
			25%	28/04/2014-26/04/2022	3.06
			25%	27/04/2015-26/04/2022	3.06
			25%	26/04/2016-26/04/2022	3.06
2012B	4,800,000	16/05/2012	25%	16/05/2013-16/05/2022	2.85
			25%	16/05/2014-16/05/2022	2.85
			25%	18/05/2015-16/05/2022	2.85
			25%	16/05/2016-16/05/2022	2.85

Movements of the Company's share options held by Trauson Directors and employees during the period and outstanding at 30 June 2012 are as follows:

	Outstanding at 1 January 2012	Granted during the period	Forfeited during the period	Outstanding at 30 June 2012
Executive Directors	–	1,800,000	–	1,800,000
Key management	7,380,000	7,000,000	(1,800,000)	12,580,000
Other employees	8,700,000	–	–	8,700,000
	<u>16,080,000</u>	<u>8,800,000</u>	<u>(1,800,000)</u>	<u>23,080,000</u>

In the current period, share options were granted on 26 April 2012 and 16 May 2012. The estimated fair value of the share options determined at the dates of grant using the Binomial model were approximately HK\$4,037,000 (equivalent to approximately RMB3,269,000) and HK\$4,102,000 (equivalent to RMB3,342,000), respectively.

The closing prices of the Company's shares immediately before 26 April 2012 and 16 May 2012, the dates of grant, were HK\$3.06 and HK\$2.69 respectively.

The following assumptions were used to calculate the fair values of the share options granted during the period:

	26.04.2012	16.05.2012
Grant date share price	HK\$3.06	HK\$2.69
Exercise price	HK\$3.06	HK\$2.85
Expected volatility	48.14%	48.65%
Expected life	10 years	10 years
Risk-free interest rate	1.22%	1.09%
Expected dividend yield	3.69%	3.69%

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 with regard to the limitation of the model.

For the six months ended 30 June 2012, the Group recognised the total expense of HK\$2,949,000 (equivalent to RMB2,403,000) (for the six months ended 30 June 2011: Nil) in relation to share options granted by the Company.

## 19. COMMITMENTS

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	17,566	–
Capital expenditure in respect of the acquisition of land use rights contracted for but not provided in the condensed consolidated financial statements	–	6,996
	<u>17,566</u>	<u>6,996</u>

## 20. RELATED PARTY TRANSACTIONS

	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>31.12.2011</b> <i>RMB'000</i> (Audited)
Amounts due to related parties:		
Changzhou Cofey Refrigeration Equipment Co., Ltd. ("Changzhou Cofey") ( <i>Note a</i> )	993	257
Jiangsu Chuangying Medical Instrument Co., Ltd ("Jiangsu Chuangying") ( <i>Note b</i> )	138	–
Plusrite Electric (Jiangsu) Co., Ltd. ("Plusrite") ( <i>Note c</i> )	–	18
	<u>1,131</u>	<u>275</u>

*Note a* Changzhou Cofey is beneficially owned by Ms Xu's brother.

*Note b* Jiangsu Chuangying is beneficially owned by Mr Qian Fu Qing, who is an executive director of the Company.

*Note c* Plusrite is wholly owned by Ms Xu.

The Group had the following significant transactions with its related parties during the current reporting period:

	<b>Six months ended</b>	
	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>30.6.2011</b> <i>RMB'000</i> (Unaudited)
Processing fee charge:		
Changzhou Cofey	1,207	333
Jiangsu Chuangying	138	–
	<u>1,345</u>	<u>333</u>
Rental income		
Jiangsu Chuangying	113	–
Jiangsu Chuangfa Biotechnology Co., Ltd. ("Jiangsu Chuangfa") ( <i>Note d</i> )	36	–
	<u>149</u>	<u>–</u>
Rental paid		
Ms Xu	464	–
	<u>464</u>	<u>–</u>

*Note d* Jiangsu Chuangfa is beneficially owned by Mr Qian Fu Qing, who is an executive director of the Company.

The remuneration of directors of the Company and other members of key management during the period were as follows:

	<b>Six months ended</b>	
	<b>30.6.2012</b> <i>RMB'000</i> (Unaudited)	<b>30.6.2011</b> <i>RMB'000</i> (Unaudited)
Short-term employees benefits	6,996	3,239
Post-employment benefits	51	23
Equity-settled share-based payments	1,024	–
	<u>8,070</u>	<u>3,262</u>



#### 4. INDEBTEDNESS

At the close of business on January 15, 2013, being the latest practicable date for the purpose of indebtedness statement prior to the printing of this Composite Document, Trauson Group had outstanding bank loan of RMB5.0 million. Save for such bank loan and apart from intra-group liabilities and normal trade payables, Trauson Group had no other outstanding mortgages, charges, debentures or loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities at the close of business on January 15, 2013.

As at the Latest Practicable Date, the Trauson Directors were not aware of any other material changes in the indebtedness position and contingent liabilities of Trauson Group since January 15, 2013.

#### 5. MATERIAL CHANGE

Trauson Directors confirm that there are no material changes in the financial or trading position or outlook of Trauson Group since December 31, 2011 (being the date to which the latest audited accounts of Trauson Group were made up) up to and including the Latest Practicable Date, save for the below mentioned:

(a) **Grant of share options**

It was disclosed in the announcement of Trauson dated April 26, 2012 that Trauson granted 4,000,000 Options to the chief financial officer of Trauson under the Share Option Scheme entitling the chief financial officer to subscribe for up to 4,000,000 new Shares. Also, it was disclosed in the announcement of Trauson dated May 16, 2012 that Trauson granted a total of 4,800,000 Options to certain individuals (the “**Grantees**”) under the Share Option Scheme entitling the Grantees to subscribe for a total of 4,800,000 new Shares. Further details of the grant of Options are set out in Trauson’s announcements dated April 26, 2012 and May 16, 2012.

(b) **Supply contract**

As disclosed in the announcement of Trauson dated June 28, 2012, a wholly-owned subsidiary of Trauson (the “**Seller**”) had entered into a supply contract (the “**Contract**”) with an independent third party (the “**Buyer**”). Pursuant to the Contract, the Buyer agreed to purchase orthopaedic products from the Seller for a total value of approximately RMB315 million (inclusive of value-added tax). The Seller also agreed to provide certain after sales services and training. So far as Trauson is aware, the Buyer purchases such products for onwards supply to the government department of an overseas country. After signing of the Contract, the Trauson Group devoted significant resources and production capacity for the Contract. The gross profit margin of this sale under the Contract is lower than that of other sales of Trauson Group because of the substantial sale amount. Due to the capacity constraints caused by the orders under the Contract, Trauson’s other sales were affected during the year ended December 31, 2012. Certain production lines have to be re-tooled to prepare for other sales.

Further details of the Contract are set out in Trauson’s announcement dated June 28, 2012.

**(c) Acquisition of a PRC company**

It was set out in the announcement of Trauson dated January 17, 2013 that on January 10, 2013, a wholly-owned subsidiary of Trauson acquired the entire equity interest in Chuangyi for a cash consideration of RMB32 million. Chuangyi is a company established under the laws of the PRC in December 2011 principally engaged in the manufacture of surgical instruments for orthopaedic products. Such acquisition constituted a discloseable transaction of Trauson under the Listing Rules. Further details of the acquisition are set out in Trauson's announcement dated January 17, 2013.

**(d) Interim results for the six months ended June 30, 2012**

The unaudited gross profit margin of Trauson Group was approximately 66.6% for the six months ended June 30, 2012, representing a drop of approximately 5.1 percentage points as compared to approximately 71.7% for the year ended December 31, 2011.

The total expenses (including distribution and selling expenses, administrative expenses, research and development expenses, and other expenses) of Trauson Group were approximately RMB108.5 million (audited) and RMB65.3 million (unaudited) for the year ended December 31, 2011 and the six months ended June 30, 2012 respectively. Such total expenses represented approximately 28.2% and 31.7% to the total revenue of Trauson Group for the year ended December 31, 2011 and the six months ended June 30, 2012 respectively.

It was stated in 2011 annual report that Trauson Group generally allowed credit period ranging from 0 to 90 days to its trade customers. It was further stated in the 2012 interim report that from time to time, for certain key customers, Trauson Group might grant longer credit periods ranging from 6 months to 3 years. The inventories of Trauson Group increased from approximately RMB61.5 million (audited) as at December 31, 2011 to approximately RMB97.7 million (unaudited) as at June 30, 2012 respectively.

As disclosed in the annual report of Trauson for the year ended December 31, 2011, outstanding capital commitments of Trauson Group which were contracted but not provided for as at December 31, 2011 amounted to approximately RMB7.0 million (audited) which were related to the acquisition of land use right for the new factory. As at June 30, 2012, capital commitments contracted but not provided for increased to approximately RMB17.6 million (unaudited), relating to the construction work of the new factory and the acquisition of equipment. As the construction work is still in progress, further capital commitment is incurred by Trauson Group. The capital commitment amounted to approximately RMB23.5 million (unaudited) as at December 31, 2012.

Trauson Group did not have any bank borrowings as at both December 31, 2011 and June 30, 2012. As set out in the paragraph headed "Indebtedness" in this Appendix above, Trauson Group had outstanding bank loan of RMB5.0 million as at the close of business on January 15, 2013.

Further details of 2012 interim results are set out in the 2012 interim report of Trauson.

**1. RESPONSIBILITY STATEMENT**

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Share Offer and the Option Offer, the Offeror Group and Trauson Group.

The information contained in this Composite Document relating to the Offeror Group has been supplied by the Offeror Group. The issue of this Composite Document has been approved by the Offeror Parent Directors and the Offeror Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Trauson Board, the Trauson Group, Trauson Shareholders, Luna, Ms. Xu, the Chairman, Mr. Qian Xiao Jin and the Independent Financial Adviser), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Trauson Board, the Trauson Group, the Independent Board Committee and the Independent Financial Adviser) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The information contained in this Composite Document relating to the Trauson Group has been supplied by Trauson. The issue of this Composite Document has been approved by the Trauson Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror Group, the Concert Parties and Barclays), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror Group and Barclays) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

## 2. SHARE CAPITAL OF TRAUSON

As at the Latest Practicable Date, the authorised and issued share capital of Trauson was as follows:

	Number of shares	Amounts HK\$'000
Ordinary shares of HK\$0.10 each:		
<b>Authorised:</b>		
At date of incorporation, at January 1, 2011 (audited), December 31, 2011 (audited) and June 30, 2012 (unaudited)	100,000,000,000	10,000,000
<b>Issued and fully paid</b>		
At January 1, 2011 (audited), December 31, 2011 (audited), and June 30, 2012 (unaudited)	774,328,625	77,433
		RMB'000

Shown in the condensed consolidated statement of financial position:

At June 30, 2012 (unaudited)	68,141
At December 31, 2011 (audited)	68,141

Since December 31, 2012 and up to the Latest Practicable Date, Trauson had not issued any Shares.

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. The Shares are listed on the Main Board and none of the securities of Trauson are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, there were 22,830,000 Options outstanding, details of which are set out below. If all of such Options were exercised, a total of 22,830,000 new Shares would be issued.

Date of grant	Exercise price per Share	Period during which Options outstanding are exercisable	Number of Shares subject to the Options outstanding
October 12, 2011	HK\$2.17	October 12, 2012 to October 12, 2021	14,030,000
April 26, 2012	HK\$3.06	April 26, 2013 to April 26, 2022	4,000,000
May 16, 2012	HK\$2.852	May 16, 2013 to May 16, 2022	4,800,000

As at the Latest Practicable Date, apart from the Options, Trauson had no outstanding options, warrants, derivatives or convertible securities in respect of the Shares.

As at the Latest Practicable Date, there were no outstanding derivatives in respect of Shares entered into by the Offeror, the Offeror Parent or any Concert Parties (excluding exempt principal traders).

### 3. MARKET PRICES OF SHARES

- (a) During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$7.35 on February 4, 2013 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$2.68 on August 22, 2012.

The table below sets out the closing prices of the Shares as quoted by the Stock Exchange on the last business day of each of the six calendar months immediately preceding the commencement of the Offer Period and ending on the Latest Practicable Date:

Date	Closing price HK\$
July 31, 2012	3.31
August 31, 2012	2.86
September 28, 2012	3.73
October 31, 2012	4.05
November 30, 2012	4.29
December 31, 2012	3.98
January 31, 2013	7.33

### 4. DISCLOSURE OF INTERESTS IN SHARES OF TRAUSON

- (a) **Directors' interests and short positions in Shares and shares in Trauson's associated corporations**

As at the Latest Practicable Date, the interests and short positions of the directors and the chief executive of Trauson in the shares and underlying shares of Trauson (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to Trauson and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below:

Name of Trauson Directors	Capacity/Nature of interest	Number of shares/underlying shares held	Approximate percentage of interest in Trauson
Mr. Qian Fu Qing (Notes 2 and 3)	Interest of spouse	477,945,000 (long position and short position)	61.72%
Ms. Xu Yan Hua (Notes 1, 2 and 3)	Interest of controlled corporation	477,945,000 (long position and short position)	61.72%
Mr. Cai Yong (Note 4)	Beneficial owner	1,800,000	0.23%

*Notes:*

1. The entire issued share capital of Luna is solely and beneficially owned by Ms. Xu. Ms. Xu is deemed under the SFO to be interested in the 477,945,000 Shares (long position) held by Luna.
2. Mr. Qian Fu Qing (the Chairman), 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.
3. Pursuant to the Irrevocable Undertaking, Luna, the Chairman and Ms. Xu have undertaken to, among other things, accept, or procure the acceptance of, the Share Offer in respect of all of the 477,945,000 Shares owned by Luna, and accordingly each of them also had or was deemed to have a short position in the 477,945,000 Shares held by Luna as at the Latest Practicable Date.
4. Mr. Cai Yong was granted 1,800,000 Options on May 16, 2012 pursuant to the Share Option Scheme. These Options have an exercise price of HK\$2.852 per Share with an exercise period between May 16, 2013 to May 16, 2022. Mr. Cai Yong has indicated that he intends to accept the Option Offer in respect of all of his 1,800,000 Options.

Save for those disclosed under this section 4(a) above, as at the Latest Practicable Date, none of the directors or the chief executive of Trauson had any interests or short positions in the shares, underlying shares or debentures of Trauson or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to Trauson and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

**(b) Interests and short positions of substantial shareholders in Trauson***(i) Interests in Trauson*

As at the Latest Practicable Date, other persons' interests and short positions in the shares and underlying shares of Trauson (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to Trauson and the Stock Exchange are set out below:

Name of substantial shareholders	Capacity/Nature of interest	Number of shares (long position)	Approximate percentage of interest in Trauson
Luna ( <i>Note</i> )	Beneficial owner	477,945,000	61.72%
Baring Asset Management Limited	Investment manager	53,340,000	6.88%

*Note:*

The entire issued share capital of Luna 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.

(ii) *Short positions in Shares and underlying Shares*

Pursuant to the Irrevocable Undertaking, Luna, the Chairman and Ms. Xu have undertaken to accept, or procure the acceptance of, the Share Offer in respect of all of the 477,945,000 Shares owned by Luna, and accordingly Luna had a short position in the 477,945,000 Shares as at the Latest Practicable Date.

Save for those disclosed above, as at the Latest Practicable Date, no other persons had any interests or short positions in the shares or underlying shares of Trauson as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to Trauson and the Stock Exchange.

(c) **Other interests**

As at the Latest Practicable Date, save as disclosed in sections 4(a) and 4(b):

- (i) none of the Offeror, the Offeror Parent, the Offeror Directors, the Offeror Parent Directors or any other Concert Parties owned or controlled or had any interest or short positions which they had taken or are deemed to have taken pursuant to Divisions 2 and 3 of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of Shares;
- (ii) none of the subsidiaries of Trauson, any of the pension funds of Trauson Group and any adviser to Trauson as specified in class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders and exempt fund managers), owned or controlled any Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares;
- (iii) there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and any member of the Offeror, the Offeror Parent or any Concert Parties;
- (iv) other than those key employees of Trauson Group referred to in section 12(a) of this Appendix, no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Trauson or with any person who is an associate of Trauson by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code had any Shares, Options or any other convertible securities, warrants, options or derivatives in respect of the Shares;
- (v) no fund managers (other than exempt fund managers) connected with Trauson who managed funds on a discretionary basis owned or controlled any Shares, Options or any convertible securities, warrants, options or derivatives in respect of the Shares; and
- (vi) none of Trauson, the Trauson Directors, the Offeror, the Offeror Parent or any Concert Parties (excluding exempt principal traders) had borrowed or lent any Shares, Options or any convertible securities, warrants, options or derivatives in respect of the Shares.

**5. DEALINGS IN SHARES OF TRAUSON**

- (a) During the Relevant Period, none of the Offeror, the Offeror Parent and the Concert Parties (excluding exempt principal traders) and none of the Offeror Directors and the Offeror Parent Directors had dealt for value in any Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares.
- (b) During the Relevant Period, no member of Trauson Group, or any pension fund of Trauson or any of its subsidiaries had dealt for value in Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares.
- (c) During the Relevant Period, no advisers to Trauson as specified in class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders and exempt fund managers) had dealt for value in Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares.
- (d) During the Relevant Period, no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Trauson or with any person who is an associate of Trauson by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code or with the Offeror, the Offeror Parent or any Concert Parties had dealt for value in Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares.
- (e) During the Relevant Period, no fund managers (other than exempt fund managers) who managed funds on a discretionary basis or who were connected to Trauson had dealt for value in any Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares.
- (f) During the Relevant Period, other than pursuant to the Irrevocable Undertaking, none of Trauson Directors or Luna had dealt for value in any Shares, Options or any other convertible securities, warrants, options or derivatives in respect of Shares.

**6. TRAUSON DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Trauson Directors had entered into any service contract with Trauson or any of its subsidiaries or associated companies for a fixed term contract with more than 12 months to run irrespective of notice period, or which has been entered into and amended within six months before the commencement of the Offer Period, or which are continuous contracts with a notice period of 12 months or more.

**7. LITIGATION**

As at the Latest Practicable Date, none of the members of Trauson Group were engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Trauson Directors to be pending or threatened by or against any member of Trauson Group.



## 8. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the Trauson Group) have been entered into by members of the Trauson Group during the period commencing two years prior to January 17, 2013 (being the date of the commencement of the Offer Period) and up to and including the Latest Practicable Date, and which are or may be material:

- (a) the equity transfer agreements dated January 5, 2013 entered into between Trauson (China) Medical Instrument Co., Ltd., a wholly-owned subsidiary of Trauson, and each of Mr. Huang Shixian, Mr. Hong Xufeng and Mr. Chen Qiang for the acquisition of the entire equity of Chuangyi for a total cash consideration of RMB32 million; and
- (b) the warranty agreement dated January 17, 2013 entered into between Trauson (China) Medical Instrument Co., Ltd., a wholly-owned subsidiary of Trauson, and Ms. Shi Baoming and Mr. Hong Xufeng whereby Ms. Shi and Mr. Hong gave warranties to Trauson (China) Medical Instrument Co., Ltd. in relation to the business and affairs of Chuangyi.

## 9. EXPERTS

The following are the qualifications of each of the experts who have been named in this Composite Document or who have given their opinion or advice, which is contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Barclays	A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contract), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.
Somerley	A corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO.

## 10. CONSENTS

Barclays and Somerley have given and have not withdrawn their respective consents to the issue of this Composite Document with the inclusion in this Composite Document of the text of their respective letters and references to their names in the form and context in which they are included.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (i) from 10:00 a.m. to 4:00 p.m., Monday to Friday at the office of Trauson Group in Hong Kong at Unit A, 17th Floor, Winbase Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong, (ii) at the website of Trauson at [www.trauson.com](http://www.trauson.com) and (iii) at the website of the SFC at <http://www.sfc.hk> from the date of this Composite Document until the Closing Date or the date on which the Offers are withdrawn or lapse, whichever is the earliest:

- (a) the deed of incorporation of the Offeror;
- (b) the restated articles of incorporation of the Offeror Parent;
- (c) the bye-laws of the Offeror Parent;
- (d) the memorandum and articles of association of Trauson;
- (e) the annual report of Trauson for the two financial years ended December 31, 2011;
- (f) the annual reports of the Offeror Parent for each of the two financial years ended December 31, 2010 and December 31, 2011 respectively;
- (g) the letter from Barclays, the text of which is set out on pages 12 to 27 of this Composite Document;
- (h) the letter from the Trauson Board, the text of which is set out on pages 28 to 33 of this Composite Document;
- (i) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 34 to 35 of this Composite Document;
- (j) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 36 to 68 of this Composite Document;
- (k) the Irrevocable Undertaking;
- (l) the material contracts as referred to in the section headed "Material Contracts" in this Appendix; and
- (m) the written consents as referred to in the section headed "Consents" in this Appendix.

**12. MISCELLANEOUS**

- (a) At the request of the Offeror Parent, Trauson Group proposes to enter into retention bonus agreements with 16 key employees of Trauson Group, pursuant to which Trauson Group will provide milestone bonus payments to these key employees if they continue their employment with Trauson Group for an agreed period of time. The total value of the bonus package is RMB11,435,000 of which half of each employee's entitlement will be payable if such employee remains in the employment of Trauson Group for more than one year following the closing of the Offers, while another half of which will be payable if such employee remains in the employment of Trauson Group for more than two years following the closing of the Offers. Some of these key employees are Trauson Optionholders and one of whom is a director of Trauson (namely Mr. Cai Yong), but none of whom is a Trauson Shareholder. The proposed retention bonus payment to Mr. Cai Yong is RMB1,100,000, half of which will be payable if Mr. Cai Yong remains in the employment of Trauson Group for more than one year following the closing of the Offers, while another half of which will be payable if he remains in the employment of Trauson Group for more than two years following the closing of the Offers. Trauson Group entered into a service agreement with Mr. Cai Yong for a term of three years with effect from June 10, 2010, subject to re-election in accordance with the articles of association of Trauson and the Listing Rules. Mr. Cai Yong's current annual salary is RMB1,200,000.
- (b) Other than (i) the Service Agreements and (ii) the proposed retention bonus agreement of Mr. Cai Yong (a Trauson Director) referred to in paragraph (a) of this section, none of the existing Trauson Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offers.
- (c) Other than (i) the Service Agreements, (ii) the non-compete undertakings given by each of Luna, the Chairman, Ms. Xu and Mr. Qian Xiao Jin referred to in the section headed "Service Agreements – Non-competition and non-solicitation undertakings" in the letter from Barclays and (iii) the proposed retention bonus agreement of Mr. Cai Yong (a Trauson Director) referred to in paragraph (a) of this section, there is no agreement, arrangement or understanding between any of the Trauson Directors and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.
- (d) Other than the Service Agreements, there is no material contract entered by the Offeror, the Offeror Parent and any of the Concert Parties in which any Trauson Director has a material personal interest.
- (e) The registered office of Trauson is at PO Box 309 Ugland House, Grand Cayman KY1-1104, Cayman Islands.
- (f) The head office and principal place of business of Trauson is at 9 Longmen Road, Wujin High-tech Industrial Development Zone, Changzhou City, Jiangsu Province, PRC. The principal place of business in Hong Kong of Trauson is at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

- (g) The Hong Kong branch share registrar and transfer office of Trauson is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (h) The registered office of the Offeror Parent is at 2825 Airview Boulevard, Kalamazoo, Michigan, 49002, U.S.A. and its address in Hong Kong is Room 2001, 20/F, One Pacific Place, 88 Queensway, Hong Kong.
- (i) As at the date of this Composite Document, the board of directors of the Offeror Parent comprises William U. Parfet, Howard E. Cox, Jr, Srikant M. Datar, Ph.D., Dr. Roch Doliveux, Louise L. Francesconi, Allan C. Golston, Howard L. Lance, Kevin A. Lobo and Ronda E. Stryker.
- (j) The registered address of the Offeror is Frans Maasweg 2, 5928 SB Venlo, The Netherlands.
- (k) As at the date of this Composite Document, the directors of the Offeror are Martinus Gerardus Maria Haast, Ramesh Subrahmanian, Tony Michael McKinney and Jan Willem Wolters.
- (l) Except for any intra-group restructuring where Shares may be transferred to other wholly-owned subsidiaries of the Offeror Parent, the Offeror Group does not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Share Offer to any other person.
- (m) The principal place of business of Barclays is at 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.
- (n) The principal place of business of the Independent Financial Adviser is at 20th Floor, Aon China Building, 29 Queen's Road Central, Hong Kong.
- (o) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, the Offeror Parent or any Concert Parties, and any other person.
- (p) As at the Latest Practicable Date, Trauson did not hold any shares in the Offeror and the Offeror Parent.
- (q) The English language text of this Composite Document shall prevail over the Chinese language text.

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## NOTICE OF THE EGM

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### TRAUSON HOLDINGS COMPANY LIMITED 創生控股有限公司

*(incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 325)

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (“EGM”) of Trauson Holdings Company Limited (the “Company”) will be held at 2nd Floor, Victoria Room, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on Wednesday, February 27, 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution of the Company:

#### ORDINARY RESOLUTION

“**That** the Service Agreements dated January 17, 2013 (the “**Service Agreements**”) entered into between Stryker Singapore Pte Ltd and each of Mr. Qian Fu Qing and Mr. Qian Xiao Jin, pursuant to which each of Mr. Qian Fu Qing and Mr. Qian Xiao Jin will be engaged as an independent service provider to provide certain services to Stryker Corporation, the Company and its subsidiaries for a period of three years, a copy of each of the Service Agreements having been produced to the EGM marked “A” and “B” respectively and initialled by the chairman of the EGM for identification purposes, are hereby approved and confirmed.”

Yours faithfully  
By order of the Board of  
**Trauson Holdings Company Limited**  
**Qian Fu Qing**  
*Chairman*

Hong Kong, February 7, 2013

*Registered office:*  
PO Box 309 Uglund House  
Grand Cayman KY1-1104  
Cayman Islands

*Principal place of business in Hong Kong:*  
8th Floor  
Gloucester Tower  
The Landmark  
15 Queen’s Road Central  
Hong Kong

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## NOTICE OF THE EGM

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*Notes:*

- (i) A shareholder entitled to attend and vote at the above meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a shareholder of the Company.
- (ii) In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the persons so present whose name stands first on the register of shareholders in respect of such share shall alone be entitled to vote in respect thereof.
- (iii) In order to be valid, a form of proxy must be deposited at the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude members of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.

*As at the date of this notice, the directors of the Company are Mr. Qian Fu Qing and Mr. Cai Yong as executive directors, Ms. Xu Yan Hua and Mr. Wang Chong Guang Charles as non-executive directors and Mr. Chan Yuk Tong, Dr. Lu Bing Heng and Mr. Zhao Zi Lin as independent non-executive directors.*