

**BEIJING CHUNLIZHENGDA MEDICAL INSTRUMENTS COMPANY LTD:
IN TODAY'S WORLD, WHO, IN HIS RIGHT MIND,
WOULD ACCEPT A BANK INTEREST RATE OF 0.31 PERCENT PER ANNUM ?**

One need not be a mathematician or an economist to realise, on scanning the Global Offering Prospectus of Beijing Chunlizhengda Medical Instruments Company Ltd () (Code: 1858, Main Board, The Stock Exchange of Hongkong Ltd), that this producer of orthopedic medical devices is nothing to write home to mom.

Over the past three Financial Years, ended December 31, 2013, this Company went nowhere, very fast, in terms of its Bottom Line.

Questions are raised in the mind of this financial analyst as to whether or not the existing management structure is sufficiently competent to be left in charge of a publicly listed company.

The Initial Public Offering (IPO)

Beijing Chunlizhengda pitched its Global Offering Prospectus on February 27, 2015, when it Offered 16.67 million, one renminbi 'H Shares' at the Indicative Offer Price Per Share, ranging from a low of \$HK12.53 to a high of \$HK14.10.

Of the total number of 'H Shares' on Offer, investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) are being Offered 1,667,000 Shares, the remaining 15,003,000 Shares, having been reserved for International Investors.

At Pages 304 and 305 of the Global Offering Prospectus, it is stated that the Company estimates that it will net about \$HK184.30 million on the assumption that the Offer Price Per Share is struck at the midpoint of the Indicative Offer Price Per Share: \$HK13.32.

The net proceeds will be utilised for the following purposes, one is told:

1. Approximately 50.00 percent, that is about \$HK92.10, *'for the development of Phase I of the Daxing New Production Base'*;
2. Approximately 20.20 percent, that is about \$HK37.20 million, *'for research and development activities'*;
3. Approximately 20.00 percent, that is about \$HK36.90 million, *'for expansion of our existing marketing and distribution networks to increase the level of our market penetration to cover more distributors and hospitals'*; and,
4. Approximately 9.80 percent, that is about \$HK18.10 million, for working capital purposes.

The Business

The business of Beijing Chunlizhengda is explained in some detail at Page 108 of the Global Offering Prospectus in the following terms:

‘OVERVIEW

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

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

‘We have been launching new products to meet market demand and cater for patients’ needs according to the market trend and in response to clinical feedbacks. As at the Latest Practicable Date (February 18, 2015), the domestic joint products registration index () of the CFDA (China Food and Drug Administration) showed that we were one of the medical device companies that held the most comprehensive medical device registration certificates in the joint prosthesis market in China in terms of number and types of certificates. As at the Latest Practicable Date, we held 14 medical device registration certificates in China for the production of medical devices which cover joint prosthesis products for four major joints (namely, shoulder, elbow, hip and knee joints) and spinal products, nine of which are Class III medical device registration certificates and five of which are Class I medical device registration certificates. We are dedicated to the development of new products through communication and cooperation with various orthopedic and medical research and development institutions. As at the Latest Practicable Date, we possessed a total of 23 registered patents, of which nine are invention patents and 14 are utility patents, and we have made applications for seven invention patents.’

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