Trauson Holdings Company Limited
創生控股有限公司

(incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）
Stock Code 股份代號：325

2012
INTERIM REPORT
中期報告

Corporate Information

MEMBERS OF THE BOARD

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

BOARD COMMITTEE

Audit committee

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

Remuneration committee

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

Nomination committee

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

COMPANY SECRETARY

Ms Ma Sau Kuen, Gloria

AUTHORISED REPRESENTATIVES

Mr Qian Fu Qing
Ms Ma Sau Kuen, Gloria

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong law:
Ashurst Hong Kong

as to PRC law:
King and Wood Mallesons

as to Cayman Islands law:
Maples and Calder

HEADQUARTERS

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Wujin High-tech Industrial Development Zone
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REGISTERED OFFICE

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INVESTOR RELATIONS

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

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

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Maples Finance Limited
PO Box 1093
Queensgate House
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HONG KONG SHARE REGISTRAR

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Wanchai
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COMPANY'S WEBSITE

http://www.trauson.com

STOCK CODE

325

Financial Summary

A summary of main financial data of Trauson Holdings Company Limited ("Trauson Holdings" or the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012 is set out below:

	For the six months ended 30 June		
	2012	2011	**Change**
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Revenue	**205,869**	160,420	**28.33%**
Gross profit	**137,015**	113,305	**20.93%**
Profit before tax	**81,451**	63,845	**27.58%**
Profit attributable to owners of the Company	**64,643**	50,400	**28.26%**
Basic earnings per share (RMB cents)	**8.30**	6.50	**27.69%**

The Group's unaudited profit attributable to owners of the Company and basic earnings per share for the six months ended 30 June 2012 were RMB64,643,000 and RMB8.30 cents, respectively. The board (the "Board") of directors (the "Directors") of the Company has resolved to declare an interim dividend of RMB2.17 cents and a special dividend of RMB2.00 cents per ordinary share for the six months ended 30 June 2012.

Management Discussion and Analysis

1. INDUSTRY REVIEW

From a global perspective, the orthopaedic medical device sector is a significant part of the global medical device market of over US$350 billion. For the past few years, the growth rate of China's orthopaedic-implant market surpassed that of the global market. According to the information provided by China Association for Medical Devices Industry ("CAMDI"), the current market size of China's medical device industry is about RMB400 billion with a growth rate of approximately 20% annually. Thus, it can be seen that China's medical device industry is a genuine sunrise industry. In particular, the size of China's orthopaedic-implant device market has exceeded RMB8 billion in 2011.

Despite the global economic downturn in the first half of 2012, as the economy of China has been growing, the consumption power and consumption concept in respect of health care have changed dramatically in China. Higher standard of living quality has increased people's awareness of health care. At the same time, the aging population has led to more chronic orthopaedic diseases which are one of the major causes of old people's death. The increasing need for diagnosis and treatment of these chronic orthopaedic diseases has stimulated hospitals to improve their service facilities and to train more orthopaedic surgeons. In addition, the Chinese government has been gradually increasing the investment in health services. The implementation of new medical reform policies is conducive to the development of China's domestic orthopaedic companies.

Due to the rapid economic growth and the increasing market demand, the core competitiveness of China's domestic orthopaedic companies has been rising. Medium- and low-end products are self manufactured, while high-end products are gradually replacing imported products. For import substitution, the market share of China's orthopaedic-implant devices continued to rise in the past few years, and the competitiveness of China's medical devices has gradually increased. Liu Diankui, the deputy director-general of the Department of Planning and Finance of the Ministry of Health, clearly stated that during the "12th Five-Year" period, the Chinese government would give support to China's domestic medical device companies, and would in priority purchase domestically produced medical devices when purchasing by the centralized tender. Also, the policies in relation to medical insurance and new product registration approval have gradually favored China's domestic medical devices, which will significantly increase the competitiveness of China's domestic medical devices.

According to the "12th Five-Year Plan for Medical Device Technology Industry" released recently, the Chinese government will increase the support for research and development innovation of medical devices. By 2015, the research and development innovation chain of China's domestic medical devices will be initially set up, which will promote a number of leading orthopaedic medical device companies in China, including Trauson Holdings, to accelerate research and development innovation, seizing opportunities to capture larger market share in the future. The small-size manufacturers in China that do not have an advantage in terms of research and development innovation and sales network will face greater challenges, thus resulting in a possible consolidation in the industry. Then, those large-size China's domestic orthopaedic companies in China will occupy more market share by leveraging their own advantages.

Compared with global orthopaedic-implant devices market, China's market still represents a relatively small portion. Therefore, the leading orthopaedic medical device companies in China have been targeting at overseas markets. Through research and development and technological improvement, the China's domestic orthopaedic companies have already narrowed the quality gap with international brands. This, along with an advantage in cost and price, has made the China's domestic orthopaedic companies a force to be reckoned with in the global market.

2. REVIEW OF EACH BUSINESS SEGMENT

a) Sales Analysis

Trauma products, spine products, OEM products and other products are the products sold by the Group. During the period, revenue from trauma and spine products grew markedly by 16.66% and 94.95%, respectively. Sales of other products also reported a significant growth of 88.77%. However, sales of OEM products declined slightly by 7.97% due to the drop in orders from the customer. For the six months ended 30 June 2012, the growth in revenue was 28.33% when compared to the first half of 2011.

The sales for the six months ended 30 June 2012 and the change compared to the corresponding period in 2011 are summarized as follows:

Type	Sales amount *RMB'000* (Unaudited)	Change
Trauma products	114,433	16.66%
Spine products	43,470	94.95%
OEM products	26,252	-7.97%
Others	21,714	88.77%
Total	205,869	28.33%

b) Production and Operation

The Group currently has three locations for its production facilities which are owned and operated by two wholly-owned controlling enterprises, namely Trauson (China) Medical Instrument Company Limited ("Trauson China") and Changzhou Orthmed Medical Instrument Company Limited ("Changzhou Orthmed"). The total production of the Group's major product types and their respective utilization rates for the six months ended 30 June 2012 and the total production for the corresponding period of 2011 are as follows:

Product type	Actual production volume for the six months ended 30.6.2012	 30.6.2011	Utilization rate for the first half of 2012
Plates	186,520 units	166,583 units	81%
Screws	1,594,143 units	1,141,556 units	92%
Intramedullary nails	94,149 units	16,103 units	118%
Cannulated screws	48,847 units	34,697 units	83%
Pedicle screws	221,670 units	64,116 units	85%
Surgical instrument	1,676 sets	1,212 sets	76%

The Group purchased a lot of new equipment, which was in place in the first half of 2012. It has increased the Group's overall production capacity and will be used for technology improvement in the near future.

c) Research and Development

During the six months ended 30 June 2012, the Group launched 4 new products. One of them is the non-fusion spine product. It has been well recognized by the market. In addition, the self-positioning intramedullary nails with its own intellectual property right has reformed the sighting method in traditional operation by intramedullary nails, which significantly facilitates a surgical operation. Besides, it has been recommended by the majority of clinical experts who have used the product.

Furthermore, as at 30 June 2012, the Group had 11 new products under research and development. Details of such products are set out in the following table:

Stages under research and development	Trauma products	Spine products	Joint products
Clinical trials	–	1	4
Clinical trials completed, at follow-up period	–	–	–
Follow-up period completed, ready to apply for registration	–	4	–
Application submitted, awaiting the approval from the State Food and Drug Administration	–	2	–
Total	–	7	4

During the first half of 2012, the Group obtained 3 new patents. As at 30 June 2012, the Group owned 83 registered patents and had several patents pending for approval.

In order to enhance product research, in addition to the existing cooperation, the Group also reached a long-term cooperation agreement with Shanghai 6th People's Hospital (上海市第六人民醫院) and Beijing Jishuitan Hospital (北京積水潭醫院) for the research and development of new orthopaedic products. Through a number of joint research and development efforts, the Group would develop more products with its own intellectual property and core competitiveness. By then, the Group aims to capture more market share by continuous introduction of new products to the market.

During the six-month period from 1 January 2012 to 30 June 2012, the Group invested a total of approximately RMB16,762,000 in research and development, mainly for the research of new orthopaedic materials and new coating technology, development of new spine products and clinical trials.

Absorbable materials, antibacterial materials and over 20 new products, including those for spine, joint, trauma and sports medicine, are under research and development.

With the achievements in the field of scientific research and intellectual property, the Group was recognized as the "Private Technology Enterprise in Jiangsu Province (江蘇省民營科技企業)" and the "Demonstration Entity of Intellectual Property Management Standardization of Companies in Jiangsu Province (江蘇省企業知識產權管理標準化示範單位)" by the relevant authorities of Jiangsu Province in the first half of 2012, which highlighted the Group as a high-tech orthopaedic company.

d) Market Coverage

Due to the rapid economic growth and the increasing market demand, the core competitiveness of the Group has been rising year-on-year. The Group has been able to manufacture medium- and low-end products on its own for a long time, and to provide a replacement of imported products with the Group's high-end products. Leveraged this advantage, the Group has maintained its position as a leader in the orthopaedic industry of China, and continued to adopt the strategy of localized management. It has also set up logistics platforms in some capital cities jointly with channel partners by enhancing the research on regional hospital orthopaedic market to shorten logistics time. This enhanced the capabilities to deal with emergency surgeries, and reduced the financial pressure and risks in relation to inventories of distributors.

The establishment of informationized network platform has optimized the inventories of distributors and also set a secure level of inventories for the total stock of the Group, resulting in significant savings in resources. Regarding the marketing aspect, the Group has strengthened its well-established cooperation network with hospitals that play a leading role in the academic field regionally, such as Beijing Jishuitan Hospital (北京積水潭醫院) and Zhongshan Hospital in Dalian (大連中山醫院), in order to increase influence of the brand within the region. Moreover, the Group has actively organized and participated in advanced academic meetings to facilitate the demonstration of high-end products and the interaction with experts in the academic field. This has increased brand awareness and laid a solid foundation for its market share in first-tier cities. In addition, based on the efforts made in 2011, we continued to expand the sales and marketing team to further improve the quality of localized marketing services, and set up a number of regional offices across the country, so that the personnel in charge of localized services is closer to hospitals and distributors to render services for end customers more conveniently, and to respond to them in a timely manner. This has improved the overall service of the Group. With this service, the Group has laid a strong and solid foundation for further expansion of market coverage.

As the government grants more permits of setting up private hospitals, more and more private hospitals have been established. New opportunities for companies arise from orthopaedic consumables. A joint procurement platform for private hospitals has been built in key provinces jointly by the Group, channel partners and private hospitals. Efforts have been made to expand the business of private hospitals, and it is believed that remarkable results would be achieved in a short term. Since there is an expansive market for orthopaedic consumables in respect of private hospitals in China, the Group believes that this represents opportunities for the Group to expand its coverage in the private hospital sector and generate new growth points.

As at 30 June 2012, the Group has a total of approximately 663 distributors covering over 3,840 licensed hospitals in China.

The domestic sales and marketing personnel of Trauson China and Changzhou Orthmed are divided into 6 regional teams and 4 regional teams, respectively.

During the first half of 2012, the Group signed a material supply contract amounted to a total of approximately RMB315 million (value-added tax included). This demonstrated the leading position of Trauson Holdings in the orthopaedic industry in China.

During the first half of 2012, the Group continued to focus on developing international distribution channels and obtaining product registrations in regions such as South America, Middle East, Eastern Europe and Africa. The Group has set up training centers for overseas doctors in South America in the first half of this year and will establish similar training bases in other areas in the future. During the first half of 2012, the export sales of the Group was approximately RMB9,731,000, representing an increase of 3.4% as compared with the corresponding period of 2011, and constituted 4.7% of the Group's overall revenue. The Group believes that the international sales will improve in the second half of 2012 with the expansion of its international sales channels and establishment of overseas training centers.

3. PROSPECTS AND OUTLOOK OF THE COMPANY

Trauson Holdings is the domestic orthopaedic company which has the longest history and "Famous Trademark" in China. Currently, it holds a pivotal position across the orthopaedic industry in China and has the largest number of patent certificates and registration certificates among domestic orthopaedic enterprises. As the economy evolves, the government has made increasing investment in health services, and has implemented the new medical reform, which has improved the development of the domestic medical devices industry. Trauson Holdings will, subject to any future changes in the nation's policies, continue to adopt the strategy that Trauson China focuses on trauma products and Changzhou Orthmed focuses on spine products. The Group will continue to develop the localization strategy, to further exploit potential markets and to enhance the service capabilities of agents for end-markets. We will aggressively carry out re-education activities for doctors on a market-oriented basis. Trauson Holdings plans to initiate re-education activities for doctors jointly with the No.1 Hospital affiliated to Shanghai Jiaotong University (上海交通大學附屬第一醫院) in the Eastern China, and to establish a new training base in the Northern China in Zhongshan Hospital affiliated to Dalian University (大連大學附屬中山醫院), so as to increase the support for weak markets in the North and enhance the service capabilities of distributors for end markets. Trauson Holdings will also continue to expand its coverage over tertiary, secondary and primary hospitals that dominate the market, and to increase the penetration into domestic unexplored markets and regions, thus gaining more market share.

In addition, the Group firmly believes that, with the trend of "import substitution" and against the backdrop of release of relevant policies, i.e. "12th Five-Year Plan for Medical Device Technology Industry", by leveraging on its own strength and quality products of a relatively lower price, Trauson Holdings will seize more market share in the orthopaedic market of China from multinational companies in the coming years, and will gradually strengthen its position as a leader in China's orthopaedic industry.

For the international market, the Group believes that the demand for relevant products will remain strong following the signing of this material contract. Besides, Trauson Holdings will recruit about 10 more international sales and marketing persons in the coming six months, and will build a dynamic and aggressive team through professional training. It will be actively engaged in the re-allocation of resources in the international medical device market, and increase its participation in international forums and medical devices exhibitions. The Group will set up more overseas offices, training bases and after-sales service centers. This will strengthen the academic exchange with doctors and enhance the training for distributors and sales persons in respect of medical expertise and product knowledge. These measures can enhance both domestic and overseas sales regarding medical expertise. By which, the international brand recognition of "Trauson" and "Orthmed" of Trauson Holdings will be improved, and the Company's image as an international public listed company will be established. Undoubtedly, Trauson Holdings will develop towards the global market in the future and this will become one of its new growth points.

Trauson Holdings will satisfy the increasing demand domestically and internationally by making more efforts in research and development, and seek to establish a brand in the ever-changing market. It is committed to providing high-quality products for distributors, reducing the risks of surgeries for patients and maximizing the benefits of customers. Through this, the Company will accomplish its strategic plan of "Winning in the End". It is believed that by way of cooperation and efforts, Trauson Holdings will be able to generate more value for shareholders.

Taking into account of new products introduced and the sales contribution in the first half of 2012, Trauson Holdings recorded a satisfactory result driven by the sales of new products; especially the sales of spine products represented a much higher than expected growth. Therefore, the Group has been committed to develop new products, so as to continuously improve its existing product mix to increase its sales revenue. The Group expects to launch 4 new products during the second half of 2012, including 1 trauma product and 3 spine products. As at 30 June 2012, the Group had 11 new products under research and development which consisted of 7 spine products and 4 joint products. The Group expects its product mix to be further enhanced after these products under research and development are registered successively in the following years. In addition, the Group, as a high-tech enterprise in the domestic orthopaedic industry, will continue to work with Grade IIIA hospitals and national institutes to enhance its capabilities for developing products and improving core competitiveness, so that the Group will be able to introduce new quality products to both domestic and international markets each year. Furthermore, the Group is fully committed to the development of joint products, and has made good progress as scheduled.

4. EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group had 1,022 employees (2011: 946 employees).

For the six months ended 30 June 2012, the Group's total cost on remunerations, welfare and social security amounted to approximately RMB47,830,000 (2011: RMB27,456,000).

The Group is committed to the continuous improvement of the internal personnel structure. During the period under review, through introduction and training of professionals and replacement of inferior employees, the number of employees with a master's degree increased to 34 from 29 at the end of last year, those with professional medical background increased to 55 from 53 at the end of last year, and those with overseas education background increased to 10 from 4 in last year. The improvement of professional personnel structure has effectively enhanced the Group's operating system and the specialization efficiency of capabilities.

During the period under review, the Group further improved and optimized the remuneration package based on market competitiveness and according to its internal personnel development plan, to enhance the level of internal equity and external competitiveness of the Group's employee remuneration and benefit package.

In view of current and future strong growth potential of the Group, during the period under review, the Group launched a series of training plans for talent reserve echelon, which focused on professional medical qualification and expertise when considering selection and training. Currently, the Group has completed the construction of the system framework, and has been in regular contact and exchange with undergraduate and postgraduate students from domestic well-known medical institutes and universities.

The Group is highly concerned with the development of personnel expertise. During the period under review, the Group has invited domestic renowned orthopaedic experts from hospitals, such as Nanfang Hospital (南方醫院) and Shanghai People's Hospital (上海人民醫院), to provide 6 professional medical trainings on product knowledge to marketing staff. Through which, the professional quality of the Group's marketing staff has been effectively improved, and they have played an active role in sales. The result was satisfactory. In addition, the Group is in negotiation with international renowned universities in relation to a cooperation plan in connection with workshop for doctoral candidates and graduates, which is expected to play a significant motivated role in further promoting the comprehensive management capabilities of core senior management of the Group.

5. FINANCIAL REVIEW

Revenue

The revenue for the six months ended 30 June 2012 increased by approximately RMB45,449,000 or 28.33% to RMB205,869,000 as compared with RMB160,420,000 for the six months ended 30 June 2011. The increase was primarily attributable to the growth in sales of the Group's trauma, spine and other products.

The following table sets forth a breakdown of the Group's revenue by product category for the six months ended 30 June 2012:

	For the six months ended 30 June			
	2012		**2011**	
	Revenue	**Percentage**	Revenue	Percentage
	RMB'000	***%***	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Trauma products	**114,433**	**55.59**	98,093	61.15
Spine products	**43,470**	**21.11**	22,298	13.90
OEM products	**26,252**	**12.75**	28,526	17.78
Others	**21,714**	**10.55**	11,503	7.17
Total	**205,869**	**100.00**	160,420	100.00

Revenue from trauma products increased by approximately RMB16,340,000 or 16.66% to RMB114,433,000, accounting for 55.59% of total revenue in the first six months of 2012. Revenue from trauma products as a percentage of the total revenue decreased by 5.56 percentage points as compared with the corresponding period in 2011. The increase in revenue from trauma products was primarily due to the continued expansion of the distribution network of the Group.

Revenue from spine products increased by approximately RMB21,172,000 or 94.95% to RMB43,470,000, accounting for 21.11% of the total revenue in the first six months of 2012, as compared with RMB22,298,000 or 13.90% of the Group's total revenue for the six months ended 30 June 2011. Revenue from spine products as a percentage of the total revenue increased by 7.21 percentage points. The increase in revenue from spine products was primarily due to the growth in sales of new products and the expansion of the Group's distribution network.

Revenue from OEM products decreased by approximately RMB2,274,000 or 7.97% to RMB26,252,000, accounting for 12.75% of the total revenue in the first six months of 2012, as compared with RMB28,526,000 or 17.78% of the Group's total revenue for the six months ended 30 June 2011. The decreased in the revenue from OEM products was primarily due to the drop in orders from the customer.

Gross Profit and Gross Profit Margin

As a result of the above-mentioned factors, gross profit increased by approximately RMB23,710,000 or 20.93% to RMB137,015,000 for the six months ended 30 June 2012, as compared to RMB113,305,000 for the same period in 2011.

Cost of sales increased by approximately RMB21,739,000 or 46.14% to RMB68,854,000 for the six months ended 30 June 2012, as compared to RMB47,115,000 for the six months ended 30 June 2011. The gross profit margin decreased by 4.08 percentage points to 66.55% for the six months ended 30 June 2012 as compared to 70.63% for the corresponding period in 2011. The main reasons are apart from the export sales, the gross margin of local sales and OEM dropped, and the proportion of low-margin products increased.

Other Income and Other Gains and Losses

Other income and other gains and losses increased by approximately RMB9,902,000 to net gain of RMB9,773,000 for the six months ended 30 June 2012, as compared to net loss of RMB129,000 for the same period in 2011.

The table below sets forth a breakdown of other income and other gains and losses for the six months ended 2011 and 2012:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(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
Total	**9,773**	(129)

Other Expenses

Other expenses increased by approximately RMB306,000 to RMB617,000 for the six months ended 30 June 2012, as compared to RMB311,000 for the same period in 2011.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB4,926,000 or 39.66% to RMB17,348,000 for the six months ended 30 June 2012, as compared to RMB12,422,000 for the corresponding period in 2011. This was primarily due to the expansion of the sales and marketing team as well as the increase in marketing activities.

Administrative and General Expenses

Administrative and general expenses increased by approximately RMB5,389,000 or 18.06% to RMB35,229,000 for the six months ended 30 June 2012, as compared to RMB29,840,000 for the six months ended 30 June 2011. The increase was primarily due to the growth of the management's remuneration and the relevant operating expenses.

Research and Development Expenses

Research and development expenses in relation to the development of new products (including salaries and welfare paid to research and development staff) increased by approximately RMB5,385,000 or 79.68% to RMB12,143,000 for the six months ended 30 June 2012, as compared to RMB6,758,000 for the corresponding period in 2011. The increase was primarily due to the increase in testing charges and materials.

Profit Before Tax

As a result of the above-mentioned factors, the Group's profit before tax increased by approximately RMB17,606,000 or 27.58% to RMB81,451,000 for the six months ended 30 June 2012, as compared to RMB63,845,000 for the corresponding period in 2011.

Income Tax Expense

Income tax expense increased by approximately RMB3,363,000 or 25.01% to RMB16,808,000 for the six months ended 30 June 2012, as compared to RMB13,445,000 for the corresponding period in 2011. The effective tax rate for the Group for the six months ended 30 June 2012 and 2011 was 20.64% and 21.06%, respectively.

Net Current Assets

Net current assets decreased by approximately RMB146,038,000 to RMB686,579,000 as at 30 June 2012 as compared with RMB832,617,000 as at 31 December 2011. The decreased amount primarily consisted of a decrease in deposits held in banks and cash of approximately RMB241,670,000 and the increase in trade and other receivables of approximately RMB90,202,000. After the reporting date until 15 August 2012, cash received from the trade receivables as at 30 June 2012 amounted to RMB113,203,000.

Liquidity

The financial resources of the Group remained healthy due to the proceeds from listing as well as solid operating cash flow. Bank balances and cash held by the Group were RMB454,320,000 and RMB695,990,000 on 30 June 2012 and 31 December 2011, respectively.

Gearing ratio

As at 30 June 2012, gearing ratio is approximately 11.86%, representing an increase of approximately 3.80 percentage points as compared with approximately 8.06% for the corresponding period of 2011. The increase was mainly due to the increase in total liabilities of approximately RMB44,324,000 to RMB135,790,000. The total liabilities as at 31 December 2011 was approximately RMB91,466,000.

Exchange Rate Risks and Counter Measures

Constrained by the control over conversion of foreign currencies for capital items, the Group's net foreign exchange loss due to appreciation of RMB was approximately RMB319,000 for the first half of 2012 and the Group has adopted various measures such as active exchange settlement and foreign currencies management to alleviate the adverse impact brought about by the loss in currency exchange.

Use of the Proceeds from Listing

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

The Group does not anticipate any material change to its plan on the use of proceeds as stated in the prospectus of the Company dated 15 June 2010. As at 30 June 2012, the Group has thus far utilized approximately RMB99,869,000 for expansion of production capacity, RMB25,963,000 for research and development and RMB27,300,000 for working capital and general corporate purposes. The unused proceeds are principally held as bank deposits in China and Hong Kong.

1. DISCLOSURE OF INTERESTS

Interests and short positions of the Directors and the chief executive in shares, underlying shares and debentures of the Company or its associated corporations

As at 30 June 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long positions in the shares and underlying shares of the Company

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

Notes:

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

2. Mr Qian Fu Qing ("Mr Qian"), 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. Mr Cai Yong was granted 1,800,000 share options on 16 May 2012 pursuant to the Company's share option scheme adopted on 27 May 2011.

Save as disclosed above, as at 30 June 2012, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' interests and short positions in shares and underlying shares of the Company

As at 30 June 2012, as far as is known to the Directors, the interests and short positions of the substantial shareholders of the Company (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity/ Nature of interest	Number of shares (long position)	Approximate percentage of interest in the Company
Luna Group Holdings Limited *(Note)*	Beneficial owner	477,945,000	61.72%
Baring Asset Management Limited	Investment manager	53,340,000	6.88%
FIL Limited	Investment manager	38,745,000	5.00%

Note:

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

Save as disclosed above, as at 30 June 2012, the Company had not been notified by any persons (other than a Director or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

2. CHANGES IN THE BOARD OF DIRECTORS AND DIRECTOR'S INFORMATION

Mr Wang Chong Guang Charles ("Mr Wang") was appointed as a non-executive Director with effect from 28 June 2012 and he is entitled to receive an annual director's fee of HK$200,000 with effect from 28 June 2012 pursuant to the appointment letter entered into between the Company and Mr Wang on 27 June 2012.

Mr Chan Yuk Tong, an independent non-executive Director, retired as an independent non-executive director of Anhui Conch Cement Company Limited whose shares are listed on the Stock Exchange with a stock code of 00914 with effect from 31 May 2012.

The remuneration package of RMB4,000,000 for Mr Qian to act as the chief executive officer of the Company was approved by the Board on 16 May 2012 and was effective on the same day.

3. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2012.

4. MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition or disposal of subsidiaries and associated companies by the Company during the six months ended 30 June 2012.

5. COMPLIANCE WITH CORPORATE GOVERNANCE CODE (THE "CODE")

The Board has adopted all code provisions under the Code as set out in Appendix 14 to the Listing Rules as the code of the Company. The Company has complied with all applicable code provisions under the Code throughout the six months ended 30 June 2012, save and except for the following deviations:

Code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Although Mr Qian assumes both the roles of chairman and chief executive officer of the Company, the divisions of responsibilities between the two roles are clearly defined.

On the whole, the role of chairman is responsible for monitoring the duties and performance of the Board, whereas the role of chief executive officer is responsible for managing the Group's business. The Board believes that at the current stage of development of the Group, vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

Code provision A.4.1 of the Code, as both of the Company and Mr Wang would like to retain the flexibility as to the term of Mr Wang's appointment, Mr Wang's appointment as a non-executive Director has no specified length of service, but subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Code provision A.6.7 of the Code, due to personal commitments, Mr Zhao Zi Lin (an independent non-executive Director and chairman of the remuneration committee of the Board) and Dr Lu Bing Heng (an independent non-executive Director and chairman of the nomination committee of the Board) did not attend the 2011 annual general meeting of the Company held on 16 May 2012.

6. COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2012.

7. SHARE OPTION SCHEME

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

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

(ii) The total number of ordinary shares of the Company of HK$0.10 each ("Shares") in respect of which options may be granted under the Share Option Scheme is 77,432,862 Shares, being 10% of the total number of Shares in issue as at 27 May 2011. As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 52,552,862 shares, representing approximately 6.79% of the issued share capital of the Company.

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

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

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

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

Details of the options granted during the six months ended 30 June 2012 are set out below:

				Number of options					
Name or category of participant	Grant Date	Exercise price per share (HK$)	Exercise period	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Balance as at 30 June 2012
Employees in aggregate	30 September 2011 *(Notes 1, 2 & 3)*	2.17	12 October 2012 to 12 October 2021	16,080,000	-	-	(1,800,000)	-	14,280,000
Mr Ho Ka Man, Barry	26 April 2012 *(Notes 2 & 4)*	3.06	26 April 2013 to 26 April 2022	-	4,000,000	-	-	-	4,000,000
Mr Cai Yong (Director)	16 May 2012 *(Notes 2 & 4)*	2.852	16 May 2013 to 16 May 2022	-	1,800,000	-	-	-	1,800,000
Mr Qian Xiao Jin	16 May 2012 *(Notes 2 & 4)*	2.852	16 May 2013 to 16 May 2022	-	3,000,000	-	-	-	3,000,000
					8,800,000				23,080,000

Notes:

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

2. The closing prices of the shares of the Company on the last trading days immediately before the abovementioned Grant Dates were HK$2.11, HK$3.01 and HK$2.80, respectively.

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

4. The vesting periods of the options granted are as follows:
   (i) 25% of such options will vest on the first trading day following the expiry of 12 months from the Grant Date;
   (ii) 25% of such options will vest on the first trading day following the expiry of 24 months from the Grant Date;
   (iii) 25% of such options will vest on the first trading day following the expiry of 36 months from the Grant Date; and
   (iv) 25% of such options will vest on the first trading day following the expiry of 48 months from the Grant Date.

The total number of Shares involved in the options outstanding at end of the period represents 2.98% of the issued share capital of the Company as at the date of this report.

Other than Mr Cai Yong, an executive Director, none of the grantees is a Director, chief executive or substantial shareholder of the Company, or their respective associates (as defined in the Listing Rules).

8. INTERIM DIVIDEND

The Board declared an interim dividend of RMB2.17 cents and a special dividend of RMB2.00 cents per ordinary share for the six months ended 30 June 2012 (for the six months ended 30 June 2011: an interim dividend of RMB1.68 cents and a special dividend of RMB1.55 cents per ordinary share) and such dividends will be paid on or about 27 September 2012 to shareholders whose names appear on the register of members of the Company at the close of business on 20 September 2012.

9. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of shareholders' entitlements to the interim dividend and the special dividend, the register of members of the Company will be closed from 18 September 2012 to 20 September 2012, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend and the special dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 17 September 2012.

10. REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The audit committee of the Company comprises Mr Chan Yuk Tong (Chairman), Mr Zhao Zi Lin and Ms Xu. Except for Ms Xu who is a non-executive Director, the other members of the audit committee are independent non-executive Directors. The audit committee has reviewed the unaudited interim report of the Group for the six months ended 30 June 2012 and has recommended its adoption by the Board.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Trauson Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 42, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	NOTES	Six months ended 30.6.2012 RMB'000 (Unaudited)	30.6.2011 RMB'000 (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
		RMB	RMB
Earnings per share – Basic and diluted	7	**0.083**	0.065

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	NOTES	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Non-current assets			
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
		345,762	219,979
Current assets			
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
		799,326	914,260
Current liabilities			
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
		112,747	81,643
Net current assets		**686,579**	832,617
Total assets less current liabilities		**1,032,341**	1,052,596
Non-current liabilities			
Deferred tax liabilities	11	**5,183**	6,937
Deferred income	15	**17,860**	2,886
		23,043	9,823
Net assets		**1,009,298**	1,042,773
Capital and reserves			
Share capital	16	**68,141**	68,141
Reserves		**941,157**	974,632
Total equity attributable to owners of the Company		**1,009,298**	1,042,773

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2012

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 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)	68,141	724,392	(165,148)	–	36,167	312,583	976,135
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 *(note 18)*	–	–	–	2,403	–	–	2,403
Dividends	–	–	–	–	–	(100,521)	(100,521)
At 30 June 2012 (unaudited)	68,141	724,392	(165,148)	3,337	52,989	325,587	1,009,298

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	**(17,865)**	19,864
Net cash used in investing activities		
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)
	(123,284)	(6,015)
Net cash used in financing activities		
Dividend paid	**(100,521)**	(27,644)
Net decrease in cash and cash equivalents	**(241,670)**	(13,795)
Cash and cash equivalents at beginning of the period	**695,990**	698,766
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	**454,320**	684,971

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
	RMB'000	RMB'000
	(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
Total revenue	**205,869**	160,420
Segment profit		
Trauma products	**87,573**	80,034
Spine products	**34,503**	18,495
OEM products	**10,826**	13,783
Others	**4,113**	993
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)
Profit before tax	**81,451**	63,845

3. REVENUE AND SEGMENT INFORMATION – CONTINUED

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. 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
	RMB'000	RMB'000
	(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
	9,773	(129)

5. PROFIT BEFORE TAX

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
	(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 *(Note)*	**2,766**	1,664

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
	RMB'000	RMB'000
	(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)
	16,808	13,445

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:

	Six months ended	
	30.6.2012	30.6.2011
	(Unaudited)	(Unaudited)
Profit		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	**64,643**	50,400
Number of shares		
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:

	30.6.2012	31.12.2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Deferred tax assets	**10,924**	7,580
Deferred tax liabilities	**(5,183)**	(6,937)
	5,741	643

11. DEFERRED TAXATION – CONTINUED

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

	Write-down of inventories RMB'000	Deferred income RMB'000	Other provisions RMB'000	Withholding tax on undistributed profits RMB'000	Total RMB'000
At 1 January 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)	2,174	3,512	5,238	(5,183)	5,741

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

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

13. TRADE AND OTHER RECEIVABLES – CONTINUED

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:

	30.6.2012 **RMB'000** **(Unaudited)**	31.12.2011 RMB'000 (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
	235,391	142,892

14. TRADE AND OTHER PAYABLES

	30.6.2012 **RMB'000** **(Unaudited)**	31.12.2011 RMB'000 (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
	86,607	61,262

14. TRADE AND OTHER PAYABLES – CONTINUED

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

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (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
	40,833	10,823

15. DEFERRED INCOME

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

15. DEFERRED INCOME – CONTINUED

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
		HK$'000
Ordinary shares of HK$0.10 each:		
Authorised		
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
Issued and fully paid		
At 1 January 2011 (audited), 31 December 2011 (audited), and 30 June 2012 (unaudited)	774,328,625	77,433

	RMB'000
Shown in the condensed consolidated statement of financial position:	
At 30 June 2012 (unaudited)	68,141
At 31 December 2011 (audited)	68,141

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:

	Share options
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)
Outstanding as at 30 June 2012	23,080,000

18. SHARE-BASED PAYMENTS – CONTINUED

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

Option series	Share option granted	Date of grant	Vesting proportion	Exercise period	Exercise price
					HK$
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 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
	16,080,000	8,800,000	(1,800,000)	23,080,000

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.

18. SHARE-BASED PAYMENTS – CONTINUED

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
	17,566	6,996

20. RELATED PARTY TRANSACTIONS

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

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:

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

20. RELATED PARTY TRANSACTIONS – CONTINUED

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:

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

TRAUSON

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