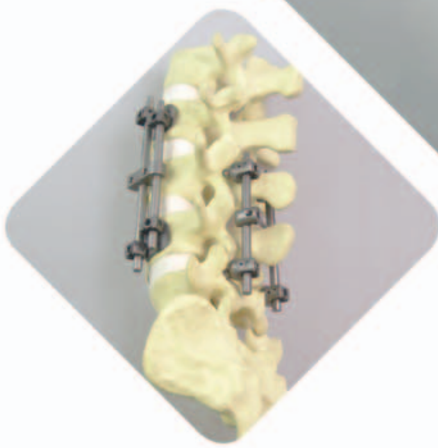
TRAUSON

Trauson Holdings Company Limited
創生控股有限公司

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

Stock Code 股份代號：325



2010 Interim Report 中期報告

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MEMBERS OF THE BOARD

Executive Directors

Mr Qian Fu Qing
Ms Ren Feng Mei
Mr Cai Yong

Non-executive Directors

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

Independent non-executive Directors

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

BOARD COMMITTEE

Audit committee

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

Remuneration committee

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

Nomination committee

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

COMPANY SECRETARY

Mr Ngai Wai Fung

AUTHORISED REPRESENTATIVES

Mr Qian Fu Qing
Mr Ngai Wai Fung

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong and United States laws:
Latham & Watkins

as to PRC law:
King and Wood

as to Cayman Islands law:
Maples and Calder

COMPLIANCE ADVISER

Mizuho Securities Asia Limited

HEADQUARTERS

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

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Bank of Communications Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPANY'S WEBSITE

http://www.trauson.com

STOCK CODE

325

A summary of main financial data of Trauson Holdings Company Limited ("Trauson" or the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 is set out below:

	For the six months ended 30 June		
	2010	2009	Change
	RMB'000	RMB'000	
Revenue	**120,278**	88,580	35.78%
Gross profit	**87,179**	61,603	41.52%
Profit before taxation	**45,880**	38,415	19.43%
Profit attributable to owners of the Company	**37,366**	32,681	14.34%
Basic earnings per share (RMB cents)	**6.6**	5.8	13.79%

The Group's audited profit attributable to owners of the Company and basic earnings per share were RMB 37,366,000 and RMB 6.6 cents for the six months ended 30 June 2010, respectively. The board of directors of the Company (the "Board") does not recommend the payment of interim dividend for the six months ended 30 June 2010.

1) INDUSTRY REVIEW

The PRC healthcare reform was initiated in 2009 and its investment is expected to reach RMB 100 billion by 2011, a major portion of which will be applied to the infrastructure construction of medical institutions. According to the "11th five-year" plan, medical instruments in 310,000 medical service institutions need to be upgraded. As a result, it is expected that medical devices manufacturers will directly benefit from such investments.

With the implementation of the reform for health insurance system in the PRC, the coverage of health insurance will be expanded to cover over 90% of the nation's population, which together with the state's efforts to provide greater flexibility for medical insurance reimbursement outside the patients' hometown regions, the public hospital reform to be launched and the inclusion of a large number of privately-operated hospitals into the category of health insurance assigned hospitals, will further boost the consumption of medical devices.

In virtually all the urban areas and a large part of the rural areas, health insurance reimbursement for orthopaedic surgeries and products are available to various degrees. The further expansion of the health insurance coverage in China is expected to greatly drive the future growth of the orthopaedic implants market. In addition, the state has amended the regulations on the supervision of medical devices to strengthen the oversight of medical device market in order to enhance safety and quality standard and promote innovation and industry consolidation.

2) BUSINESS REVIEW

The Group is a leading producer of orthopaedic products in China. It designs, manufactures and sells a broad range of trauma and spine orthopaedic implants and related surgical instruments. According to a market research conducted by China Orthopaedics, the Group was the largest producer of trauma products, and one of the top three producers of spine products, among the PRC orthopaedic manufacturers in 2009 in terms of market share.

The Group manufactures an extensive portfolio of orthopaedic products. As of 30 June 2010, it had 88 marketed products which comprised 23 trauma products, six spine products and 59 other products registered with the applicable food and drug administration in the PRC.

Trauma products: which are primarily used for the surgical treatment of bone fractures of the hands, upper extremity, hips, pelvis, lower extremity, ankles and feet due to accidents, pathological or other reasons. The Group produces over 20 trauma products, which are all made of titanium, titanium alloy or stainless steel.

Spine products: which are used for the surgical treatment of spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons.

Other products: which include orthopaedic cables, external fixators and surgical instruments.

The Group sells its products mainly under its own brands, "Trauson" and "Orthmed". The Group also produces specialty surgical instruments under an OEM arrangement for a leading global medical device manufacturer.

In order to broaden the product offering of the Group's spine product business and better serve higher end customers including Grade 3 A hospitals (三甲級醫院), the Group successfully entered into a distribution arrangement with a Taiwan-based orthopaedic products manufacturer in May 2010, to distribute, as the sole distribution agent of this company in China, spine products and surgical instruments that the Group believes can complement its existing product lines in China. This company is a medical device manufacturer specializing in spinal internal fixators. It has a history of more than ten years in Taiwan and of nearly ten years in the PRC market, and its products are distributed in several countries across the world. A new product of this company has just been approved by the State Food and Drug Administration this year for sale in the PRC market. The Group believes that this collaboration will greatly enhance the competitiveness of the Group's existing spine products and become another strong driver for the Group's business expansion into the higher end market.

Production

The Group has significantly increased its production capacity in the first half of 2010. The annual production capacity (after taking into account the time required for regular maintenance) and the utilisation rate of the production facility of Trauson (Jiangsu) Medical Instrument Company Limited ("Trauson Jiangsu"), a wholly-owned subsidiary of the Company, for the six months ended 30 June 2010 were as follows:

	For the six months ended 30 June 2010		For the year ended 31 December 2009	
	Maximum annual capacity (Note)	**Utilisation rate**	Maximum annual capacity (Note)	Utilisation rate
Plates	**274,160 units**	**46%**	210,102 units	86%
Metal bone screws	**2,161,080 units**	**40%**	1,603,410 units	77%
Intramedullary nails	**54,280 units**	**39%**	33,174 units	68%
Cannulated screws	**58,200 units**	**55%**	44,688 units	93%
Spine products	**128,780 units**	**35%**	90,599 units	99%
Devices	**2,937 sets**	**37%**	2,233 sets	85%

Note: Maximum annual capacity refers to the number of units/sets of the Group's products which, it estimates, could be produced within the period defined. It includes the capacity of the then existing production facility and equipment within the period defined, irrespective of whether the production facility or equipment was actually operating or idle. For each product category, the Group based the related maximum annual capacity on the output capacity of the relevant bottleneck production process (i.e. the process in the product production line pursuant to which the least volume of work-in-progress could be processed in the defined period). The maximum annual capacity of the bottleneck process and, by extension, the maximum annual capacity for each product category generally is primarily driven by factors such as processing time, the required number of operators for the process, number of operator shifts during the defined period, machine workable hours and the then current efficiency.

Excluding the equipment provided by the Group's OEM customer kept for the exclusive use for its orders and the equipment reserved for new product testing, the annual production capacity (after taking into account the time required for regular maintenance) and the utilisation rate of the production facility of Changzhou Orthmed Medical Instrument Company Limited ("Orthmed Changzhou"), a wholly-owned subsidiary of the Company, for the six months ended 30 June 2010 were as follows:

	For the six months ended 30 June 2010		For the year ended 31 December 2009	
	Maximum annual capacity (Note)	**Utilisation rate**	Maximum annual capacity (Note)	Utilisation rate
Plates	**80,297 units**	**71%**	60,200 units	87%
Screws	**438,151 units**	**93%**	492,900 units	77%
Pedicle screws	**20,275 units**	**59%**	N/A	N/A
Surgical instruments	**1,258 sets**	**84%**	1,258 sets	65%

Note: Maximum annual capacity refers to the number of units/sets of the Group's products which, it estimates, could be produced within the period defined. It includes the capacity of the then existing production facility and equipment within the period defined, irrespective of whether the production facility or equipment was actually operating or idle. For each product category, the Group based the related maximum annual capacity on the output capacity of the relevant bottleneck production process (i.e. the process in the product production line pursuant to which the least volume of work-in-progress could be processed in the defined period). The maximum annual capacity of the bottleneck process and, by extension, the maximum annual capacity for each product category generally is primarily driven by factors such as processing time, the required number of operators for the process, number of operator shifts during the defined period, machine workable hours and the then current efficiency.

Research and Development

As of 30 June 2010, the Group has seven new products which are undergoing clinical testing, including five spine products and two joint products. In addition, the clinical trials for Devine spinal internal fixator have been completed.

In addition to these products which are undergoing clinical testing, the Group has 11 new products under research and development, including five spine products and six trauma products. All new products are on track according to the Group's development plan.

The Group obtained six Class II and Class III product registration certificates in the first half of 2010, including five trauma products and one spine product. In addition, the Group applied for a total of 28 patents in the first half of the year, including two invention patents and 26 utility model patents.

During the six months ended 30 June 2010, Jiangsu Province Sci-tech Department assessed and confirmed that Trauson Jiangsu, a wholly-owned subsidiary of the Company, was awarded the private sci-tech enterprise in Jiangsu province. At the same time, Jiangsu Province Sci-tech Department also approved the establishment of Jiangsu Research Engineering Center of Minimally Invasive Orthopaedic Devices by Trauson Jiangsu. In addition, the Office of Human Resources and Social Security of Jiangsu province assessed and approved the establishment of a post-doctoral research station by Trauson Jiangsu.

Sales

In the first half of 2010, the Group had increased a total of 40 new distributors including 4 for oversea sales. The Group will continue to promote its brand and exploit hospital customer base through participating in and sponsoring academic conferences and seminars in the future, and increase sales and market share through promotion of new products.

3) FUTURE PROSPECTS AND OUTLOOK

Sales and Business

The Group will strive to maintain its leadership in the existing markets and actively expand into new markets. The Group has been focusing on the densely populated markets in the eastern China region. While maintaining a high growth rate in the eastern China region this year, the Group will put more focus on its business development in inland cities. The Group believes that the economic growth in inland China as well as the development of the healthcare market will bring substantial growth opportunities for the inland cities of China. Therefore, the Group will actively expand its distribution networks in inland markets through various exhibitions and products trade fairs, and develop and reinforce its penetration into these markets through academic promotions.

While expanding its distribution network, the Group will also endeavour to increase the number of hospitals that use its products. To this end, the Group will bring better products and services to more hospitals and doctors. The Group intends to increase the frequency of visits to hospitals by its sales teams, so as to truly understand the needs of its end customers, meet the surgical needs of doctors and increase the exposure of its products to surgeons, thereby increasing the awareness of its brand and recruiting more hospital customers.

In order to further exploit the relationship among manufacturers, distributors and hospital customers, the Group is taking initiatives to develop various operating models, including a logistic network pilot scheme, which the Group believes will offer cost-efficient means for the distributors to gain swift access to inventory and maintain lower levels of inventory while effectively servicing hospital customers. The Group believes that this will attract new distributors and help increase its market coverage.

Mergers and Acquisitions

The Group will continue to focus on small-or mid-sized domestic orthopaedics enterprises as its strategic acquisition targets. The Group looks for targets with products that possess unique competitive edge and complement the Group's own product lines, especially in the spine and joint areas. The Group also aims for acquisitions that can create synergy by applying the Group's leading and extensive distribution channels to the acquired products and further strengthen the Group's leadership in the orthopaedic market. The Group has been approaching some potential targets. As at the date of this report, such discussions are still at preliminary stage.

4) FINANCIAL REVIEW

Revenue

The Group's revenue increased by RMB 31,698,000 or 35.78% to RMB 120,278,000 for the six months ended 30 June 2010, as compared to RMB 88,580,000 for the six months ended 30 June 2009. The increase was primarily due to the increase in sales of the Group's trauma products and OEM products, and the increase in sales of other products and spine products also contributed to the increase.

The following table sets forth a breakdown of the Group's revenue and gross profit margins by product category for the six months ended 30 June 2010 and 30 June 2009.

	For the six months ended 30 June			
	2010		2009	
	Revenue RMB '000	**Gross profit margin**	Revenue RMB '000	Gross profit margin
Trauma products	**75,753**	**81.49%**	54,833	76.33%
Spine products	**13,903**	**80.30%**	13,464	84.65%
OEM products	**22,604**	**57.99%**	15,918	40.64%
Others	**8,018**	**14.69%**	4,365	43.14%
Total	**120,278**	**72.48%**	88,580	69.55%

Revenue from trauma products increased by RMB 20,920,000 or 38.15 % to RMB 75,753,000, which constituted 62.98% of the Group's total revenue for the first half of 2010 , as compared to RMB 54,833,000 or 61.90% of the Group's total revenue for the six months ended 30 June 2009. Revenue from trauma products as a percentage of the total revenue remains substantially unchanged. The increase in revenue from trauma products was primarily due to the increase in sales volume resulted from the sale of more products through the large and expanding distribution network of the Group.

Revenue from spine products increased by RMB 439,000 or 3.26% to RMB 13,903,000, which constituted 11.56% of the Group's total revenue for the first half of 2010, as compared to RMB 13,464,000 or 15.20% of the Group's total revenue for the six months ended 30 June 2009. Revenue from spine products as a percentage of the total revenue decreased by 3.64 percentage points.

Revenue from OEM products increased by RMB 6,686,000 or 42.00% to RMB 22,604,000. This was primarily due to the increase of orders placed by the Group's OEM customer.

Cost of sales

Cost of sales increased by RMB 6,122,000 or 22.69% to RMB 33,099,000 for the six months ended 30 June 2010, as compared to RMB 26,977,000 for the six months ended 30 June 2009. The gross profit margins for the Group's trauma products and OEM products continue to improve in the first half of 2010. As a result, the overall gross profit margin for the six months ended 30 June 2010 rose by 2.93 percentage points as compared to that for the six months ended 30 June 2009. The increase in the Group's overall gross profit margin was achieved by its continuing efforts to adjust its product mix towards products of higher gross profit margins.

Gross profit margin of OEM products increased significantly by 17.35 percentage points to 57.99% for the six months ended 30 June 2010 from 40.64% for the six months ended 30 June 2009. This was primarily due to reduced waste of raw materials and reduction in average labor and hours spent in processing with further improvement of OEM product processing technology. In addition, the economies of scale achieved as a result of the increase in OEM orders also contributed to the increase in gross profit margin of OEM products.

Gross profit margin of trauma products increased to 81.49% for the six months ended 30 June 2010 from 76.33% for the six months ended 30 June 2009. This was primarily due to the increase in gross profit margins of the standard plates, locking plates and intramedullary nails in the implant product lines, as well as further optimization of the Group's product mix and increased contribution from products with higher gross profit margins such as locking plates.

Gross profit

As a result of the foregoing factors, gross profit significantly increased by RMB 25,576,000 or 41.52% to RMB 87,179,000 for the six months ended 30 June 2010, as compared to RMB 61,603,000 for the corresponding period in 2009.

Other income

Other income decreased by approximately RMB 120,000 to RMB 348,000 for the six months ended 30 June 2010, as compared to RMB 468,000 for the corresponding period in 2009.

The table below sets forth a breakdown of the Group's other income for the periods indicated:

	For the six months ended 30 June	
	2010	2009
	RMB '000	RMB '000
		(unaudited)
Interest income	**272**	462
Net foreign exchange losses	**(451)**	(40)
Gain(loss) on disposal of fixed assets	**111**	(88)
Fair value change of held for trading investments	**—**	13
Government grants	**299**	—
Others	**117**	121
Total	**348**	468

Other expenses

Other expenses increased by approximately RMB 13,532,000 to RMB 13,608,000 for the six months ended 30 June 2010, as compared to RMB 76,000 for the corresponding period in 2009. The increase of other expenses was primarily due to expenses related to the Company's initial public offering ("IPO") in the amount of approximately RMB 13,398,000.

Distribution and selling expenses

Distribution and selling expenses decreased by RMB 788,000 or 9.52% to RMB 7,488,000 for the six months ended 30 June 2010, as compared to RMB 8,276,000 for the corresponding period in 2009. This was primarily due to a decrease of sample fees for the six months ended 30 June 2010 as a result of the change of the Group's sales strategies from giving free instruments to offering corresponding discounts based on purchase amounts of distributors.

Administrative and general expenses

Administrative and general expenses increased by RMB 7,143,000 to RMB 17,056,000 for the six months ended 30 June 2010, as compared to RMB 9,913,000 for the corresponding period in 2009. The increase was primarily due to an increase in salaries for administrative staff and staff welfare, an increase in traveling and entertainment expenses.

Research and development expenses

Research and development expenses in relation to the development of new products decreased by RMB 1,453,000 or 30.75% to RMB 3,272,000 for the six months ended 30 June 2010, as compared to RMB 4,725,000 for the corresponding period in 2009. The decrease was mainly because some research and development projects have been completed in 2009, and research and development expenses for new projects will mainly occur in the second half of 2010.

Income tax expense

Income tax expense increased by RMB 2,780,000 or 48.48% to RMB 8,514,000 for the six months ended 30 June 2010, as compared to RMB 5,734,000 for the corresponding period in 2009. The effective tax rate for the Group for the first half of 2010 and 2009 was 18.56% and 14.93%, respectively. The increase in effective tax rate was mainly because Orthmed Changzhou, as a foreign invested enterprise, enjoyed full tax exemption in 2009 and is subject to EIT tax rate at 12.50% in 2010.

Profit for the first half year

As a result of the foregoing factors, the Group's profit increased by RMB 4,685,000 or 14.34% to RMB 37,366,000 for the six months ended 30 June 2010, as compared to RMB 32,681,000 for the corresponding period in 2009. The result of the first half of 2010 included the impact of IPO related expenses in the amount of approximately RMB13,398,000. The increase in profit was due to successful increase in revenue and reduction in costs as a result of the Group's improvement in production efficiency.

Net current assets

With the improvement of the Group's capital structure and the increase in cash flow from operations, net current assets increased from RMB 122,196,000 as at 31 December 2009 to RMB 661,462,000 as at 30 June 2010. The increase was primarily due to an increase in bank deposit and cash of approximately RMB 553,765,000.

Liquidity

The financial resources of the Group became more sufficient with the net proceeds from the Company's listing. Bank balances and cash held by the Group was RMB 612,159,000 and RMB 58,394,000 on 30 June 2010 and 31 December 2009, respectively.

Gearing ratio

The Group's gearing ratio (note) as at 30 June 2010 was approximately 3.34%, which decreased significantly by approximately 14.72% from approximately 18.06% as at 31 December 2009. Such decrease was mainly due to the significant increase in the Group's current assets as the Group received proceeds of HK$633,219,000 from the Company's successful listing.

Note: The gearing ratio represents the ratio of the Group's total borrowings to total assets as at 30 June 2010 and 31 December 2009.

Exchange rate risks and counter measures

Major operational entities and revenue sources of the Group are all located in the PRC. The potential exchange rate risks are derived primarily from(i) receivables resulted from foreign trading revenue settled in foreign currencies; and(ii) deposits in foreign currencies. The Group has adopted various measures such as speeding up the exchange settlement as well as actively negotiating with banks, to reduce the exchange rate risks. In general, the Group is exposed to exchange rate risks in relation to export and deposits in foreign currencies.

Borrowings

The following table sets forth the Group's borrowings as at 30 June 2010 and 31 December 2009:

	As at 30 June 2010 RMB '000	As at 31 December 2009 RMB '000
Short-term bank borrowings	**30,000**	—

Save as disclosed above, as at 30 June 2010, the Group did not have any debt capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other indebtedness , liabilities under acceptance (other than normal trade bills) or acceptance credits, notes, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Employees and remuneration

As at 30 June 2010, the Group had 908 full-time employees and the total remunerations were approximately RMB 26,984,000. In order to maintain and attract talents, the Group continued to invest into human resources and provide high quality employees with competitive remuneration package and at the same time, put more efforts in the employees' training and carried out multi-level training activities to strengthen the foundation for future growth.

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 from the IPO, after deducting the relevant costs of the listing, were approximately HK$633,219,000 (without taking into account the partial exercise of the over-allotment option). As at 30 June 2010, the net proceeds had been temporarily deposited in banks.

As at the date of this report, the Group does not anticipate any change to its plan on the use of proceeds as stated in the prospectus of the Company dated 15 June 2010.

Subsequent events

In July 2010, the Company issued 24,328,625 new shares at the price of HK$3.52 upon the partial exercise of the over-allotment option, the net proceeds from which were approximately HK$82,632,000 after deducting the listing-related costs and expenses.

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

1. DISCLOSURE OF INTERESTS

Interests and short positions of the Directors and the chief executive of the Company

As at 30 June 2010, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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")) which were required to be recorded in the register of the Company required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

(a) Interests in shares

Name	Capacity/Nature of interest	Number of shares (Long position)	Approximate percentage of interest in the Company
Qian Fu Qing (Note 2)	Interest of spouse	481,231,375	64.16%
Xu Yan Hua (Note 1&2)	Interest of corporation controlled	481,231,375	64.16%

(b) Short positions in shares

Name	Capacity/Nature of interest	Number of shares (Short position)	Approximate percentage of interest in the Company
Qian Fu Qing (Note 2)	Interest of spouse	3,798,000	0.51%
Xu Yan Hua (Note 1&2)	Interest of corporation controlled	3,798,000	0.51%

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 481,231,375 shares (long position) and 3,798,000 shares (short position) held by Luna Group Holdings Limited.

2. Mr Qian Fu Qing, the spouse of Ms Xu, is also deemed to be interested in the 481,231,375 shares (long position) and 3,798,000 shares (short position) in which Ms Xu is deemed to be interested.

Save as disclosed above, as at 30 June 2010, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register of the Company required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

Discloseable interests and short positions of substantial shareholders of the Company

As at 30 June 2010, so far as the Directors of the Company are aware and to the best knowledge of the Directors, the interests and short positions of the substantial shareholders of the Company (other than the Directors and chief executive of the Company) in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(a) Interests in shares

Name	Capacity/Nature of interest	Number of shares (Long position)	Approximate percentage of interest in the Company
Luna Group Holdings Limited (Note 1)	Beneficial owner	481,231,375	64.16%
Central Huijin Investment Ltd. (Note 2)	Interest of a controlled corporation	55,940,625	7.46%
China Construction Bank Corporation (Note 2)	Interest of a controlled corporation	55,940,625	7.46%
CCB International Group Holdings Limited (Note 2)	Interest of a controlled corporation	55,940,625	7.46%
CCB Financial Holdings Limited (Note 2)	Interest of a controlled corporation	55,940,625	7.46%
CCB International (Holdings) Limited (Note 2)	Beneficial owner	55,940,625	7.46%
CCB International Assets Management (Cayman) Limited (Note 2)	Interest of a controlled corporation	55,940,625	7.46%
CCB International Asset Management Limited (Note 2)	Interest of a controlled corporation	55,940,625	7.46%
Honest Fame Investment Limited (Note 2)	Nominee for another person	55,940,625	7.46%
Baring Asset Management Limited	Investment manager	55,063,000	7.34%
Northern Trust Fiduciary Services (Ireland) Limited	Trustee	40,067,000	5.34%
UBS AG	Beneficial owner	31,924,000	4.26%
	Person having a security interest in the shares	11,724,000	1.56%

(b) Short positions in shares

Name	Capacity/Nature of interest	Number of shares (Short position)	Approximate percentage of interest in the Company
UBS AG	Beneficial owner	31,924,000	4.26%

Notes:

1. The entire issued share capital of Luna Group Holdings Limited is solely and beneficially owned by Ms Xu. Ms Xu is deemed under the SFO to be interested in 481,231,375 shares (long position) held by Luna Group Holdings Limited.
2. Such 55,940,625 shares belong to the same batch of shares.

Save as disclosed above, as at 30 June 2010, none of the Directors is aware of any substantial shareholders of the Company (other than the Directors and chief executive of the Company) who had or was deemed to have an interest or short position in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

2. INFORMATION ON DIRECTORS

Save as disclosed in the prospectus of the Company dated 15 June 2010, Dr Lu Bing Heng , the independent non-executive Director of the Company, has been serving as an independent director of Luoyang Bearing Science and Technology Co., Ltd (a company listed on the Shenzhen Stock Exchange) since November 2007. In addition, Jia Sheng Holdings Limited (a company listed on the Stock Exchange), of which Mr Chan Yuk Tong, the independent non-executive Director of the Company, is an independent non-executive director, changed its name to Thunder Sky Battery Limited on 27 May 2010. Furthurmore, as disclosed in the announcement of the Company dated 24 August 2010, Mr. Ng Ming Chee James was appointed as a non-executive Director of the Company with effect from 24 August 2010.

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

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company for the period from its listing on 29 June 2010 and up to 30 June 2010.

4. AQUISITIONS AND DISPOSALS

Save as disclosed in the prospectus of the Company dated 15 June 2010, there were no acquisitions or disposals during the six months ended 30 June 2010.

5. COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has adopted all code provisions under the Code on Corporate Governance Practices (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 since its listing on 29 June 2010, save and except the only deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Although Mr. Qian Fu Qing assumes both the roles of Chairman and Chief Executive Officer, the divisions of responsibilities between the two roles are clearly defined. On the whole, the role of Chairman is responsible for monitoring the duties and performance of the Board, whereas the role of Chief Executive Officer is responsible for managing the Group's business. The two roles are assumed by Mr. Qian Fu Qing. 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.

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

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard (the "Required Standard") under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors, and they have confirmed that they had complied with the Required Standard for the period from the listing of the Company on 29 June 2010 to 30 June 2010.

7. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

8. REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The Audit Committee is comprised of the following three members, two of whom are independent non-executive Directors:

Mr Chan Yuk Tong (Chairman of committee)- Independent non-executive Director
Mr Zhao Zi Lin- Independent non-executive Director
Ms Xu Yan Hua- Non-executive Director

The Audit Committee together with the auditors of the Company, Deloitte Touche Tohmatsu, have reviewed the audited interim report of the Group for the six months ended 30 June 2010.

9. SHARE OPTION SCHEME

The Company does not have any share option scheme.

Deloitte.
德勤

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

We have audited the consolidated financial statements of Trauson Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 68, which comprise the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2010, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the six months ended 30 June 2010 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to the fact that the corresponding figures set out in the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes for the six months ended 30 June 2009 have not been audited.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 August 2010

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	NOTES	Six months ended 30.6.2010 RMB'000	Six months ended 30.6.2009 RMB'000 (unaudited)
Revenue	7	**120,278**	88,580
Cost of sales		**(33,099)**	(26,977)
Gross profit		**87,179**	61,603
Other income and other gains and losses	8	**348**	468
Distribution and selling expenses		**(7,488)**	(8,276)
Administrative and general expenses		**(17,056)**	(9,913)
Research and development expenses		**(3,272)**	(4,725)
Other expenses	9	**(13,608)**	(76)
Interest expenses in relation to bank loans wholly repayable within five years		**(223)**	(468)
Share of loss of an associate		**—**	(198)
Profit before tax	10	**45,880**	38,415
Income tax expense	12	**(8,514)**	(5,734)
Profit for the period and total comprehensive profit for the period		**37,366**	32,681
Attributable to owners of the Company		**37,366**	32,681
		RMB	RMB
Earnings per share - Basic	13	**0.066**	0.058

Consolidated Statement of Financial Position

At 30 June 2010

	NOTES	30.6.2010 RMB'000	31.12.2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**124,764**	89,512
Prepaid lease payments	15	**19,984**	20,148
Intangible asset	16	**4,103**	2,723
Deferred tax assets	17	**4,099**	2,889
		152,950	115,272
Current assets			
Inventories	18	**46,876**	43,557
Trade and other receivables	19	**85,459**	69,340
Amounts due from related parties	20	**—**	37,485
Prepaid lease payments	15	**432**	432
Bank balances and cash	21	**612,159**	58,394
		744,926	209,208
Land use rights classified as held for sale	15	**—**	14,988
		744,926	224,196
Current liabilities			
Trade and other payables	22	**48,908**	36,711
Amounts due to related parties	23	**459**	9,377
Amount due to a shareholder	24	**—**	52,713
Tax liabilities		**4,097**	3,199
Short-term bank loans	25	**30,000**	—
		83,464	102,000
Net current assets		**661,462**	122,196
Total assets less current liabilities		**814,412**	237,468
Non-current liabilities			
Deferred tax liabilities	17	**1,815**	1,375
		1,815	1,375
Net assets		**812,597**	236,093

	NOTES	30.6.2010	31.12.2009
		RMB'000	RMB'000
Capital and reserves			
Share capital	26	**66,000**	20
Reserves	27	**746,597**	236,073
Total equity attributable to owners of the Company		**812,597**	236,093

The consolidated financial statements on pages 21 to 68 were approved and authorised for issue by the board of directors on 24 August 2010 and are signed on its behalf by:

Qian Fu Qing
DIRECTOR

Cai Yong
DIRECTOR

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2009	20	—	2,443	14,731	133,762	150,956
Profit for the year and total comprehensive income for the year	—	—	—	—	82,179	82,179
Capital contributed into Old Shanghai Trading Entities (note a)	—	—	800	—	—	800
Deemed distribution to the controlling shareholder upon the Transfer (note a)	—	—	(3,243)	—	2,477	(766)
Gain on disposal of a subsidiary to a company wholly owned by Mr. Qian Fu Qing ("Mr. Qian") (note b)	—	—	2,370	—	—	2,370
Gain on disposal of an associate to Mr. Qian	—	—	554	—	—	554
Appropriation of statutory surplus reserve	—	—	—	7,797	(7,797)	—
At 31 December 2009	20	—	2,924	22,528	210,621	236,093
Profit for the period and total comprehensive income for the period	—	—	—	—	37,366	37,366
Issue of shares pursuant to the Group Reorganisation (note c)	49,480	118,592	(168,072)	—	—	—
Dividend (note d)	—	—	—	—	(13,414)	(13,414)
Issuance of new shares	16,500	559,420	—	—	—	575,920
Cost of issue of new shares	—	(23,368)	—	—	—	(23,368)
At 30 June 2010	66,000	654,644	(165,148)	22,528	234,573	812,597
Unaudited						
At 1 January 2009	20	—	2,443	14,731	133,762	150,956
Profit for the period and total comprehensive income for the period	—	—	—	—	32,681	32,681
At 30 June 2009	20	—	2,443	14,731	166,443	183,637

Notes:

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

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

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

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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Operating activities		
Profit before tax	**45,880**	38,415
Adjustments for:		
Depreciation of property, plant and equipment	**4,586**	4,890
(Reversal of) write-down of inventories	**(879)**	1,937
Interest expenses	**223**	468
Impairment losses on trade and other receivables	**1,088**	616
Release of prepaid lease payments on land use rights	**164**	216
(Gain) loss on disposal of property, plant and equipment	**(111)**	88
Share of loss of an associate	**—**	198
Interest income	**(272)**	(462)
Fair value change of held for trading investments	**—**	(13)
Operating cash flows before movements in working capital	**50,679**	46,353
Increase in inventories	**(2,440)**	(5,823)
Increase in trade and other receivables	**(17,207)**	(20,127)
Decrease in held for trading investments	**—**	25
Increase in trade and other payables	**10,926**	918
Decrease in amounts due to related parties	**(333)**	—
Net cash generated from operations	**41,625**	21,346
PRC income tax paid	**(8,386)**	(7,269)
Net cash from operating activities	**33,239**	14,077
Investing activities		
Proceeds from disposals of property, plant and equipment	**1,214**	—
Interest received	**272**	462
Proceeds from disposals of land use rights	**14,988**	—
Payments for acquisition of property, plant and equipment	**(39,670)**	(3,346)
Repayment from a shareholder	**—**	1,730
Repayment from (advance to) related parties	**9,706**	(7,144)
Payments for land use rights	**—**	(22,289)
Development costs paid and capitalised	**(1,380)**	—
Net cash used in investing activities	**(14,870)**	(30,587)

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Financing activities		
Short-term bank loans raised	**30,000**	55,000
Repayment of short-term bank loans	**—**	(10,000)
Repayment to a shareholder	**(33,519)**	(457)
Advance from related parties	**—**	3,619
Proceeds from issue of shares	**575,920**	—
Expenses on issue of shares	**(23,368)**	—
Dividend paid	**(13,414)**	—
Interest paid	**(223)**	(468)
Net cash from financing activities	**535,396**	47,694
Net increase in cash and cash equivalents	**553,765**	31,184
Cash and cash equivalents at beginning of the period	**58,394**	29,464
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	**612,159**	60,648

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Trauson Holdings Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on 27 January 2010. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 29 June 2010. The immediate and ultimate holding company is Luna Group Holdings Limited ("Luna Group"), a company incorporated in the British Virgin Islands ("BVI") wholly owned by Ms. Xu Yan Hua ("Ms. Xu"). The addresses of registered office and the principal place of business of the Company are disclosed in the Corporate Information section to the interim report.

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

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the principal subsidiaries).

The Group Reorganisation

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

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

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

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

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

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

The consolidated financial statements for the current period cover the six months ended 30 June 2010. The corresponding comparative amounts shown for certain notes to the consolidated financial statements cover a twelve-month period from 1 January 2009 to 31 December 2009 and therefore may not be comparable with amounts shown for the current period.

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

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

The adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Company for current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK (IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 February 2010.

3 Effective for annual periods beginning on or after 1 July 2010.

4 Effective for annual periods beginning on or after 1 January 2011.

5 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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

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 period 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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Deposits received from purchasers prior to meeting the criteria for revenue recognition are included in the consolidated statement of financial position as liabilities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in statement of comprehensive income in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised on the statement of financial position as prepaid lease payments and are amortised to the statement of comprehensive income on a straight-line basis over the periods of the respective lease.

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 period 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 period in which they are incurred.

Government grants

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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Retirement benefit costs

Payments to state-managed retirement benefit scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. 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 periods 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 (other than in a business combination) 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. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Intangible assets

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including short-term bank loans, 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

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

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 30 June 2010, the carrying amounts of trade receivables were approximately RMB77,663,000 (31 December 2009: RMB53,170,000).

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down such inventories in that period. As at 30 June 2010, inventories carried at net realisable value were approximately RMB3,508,000 (31 December 2009: RMB2,407,000).

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 short-term bank loans, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings, as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as raising of short-term bank loans.

6. FINANCIAL INSTRUMENTS

6A. Categories of financial instruments

	30.6.2010	31.12.2009
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**692,644**	151,247
Financial liabilities		
Amortised cost	**62,159**	80,627

6B. Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, trade and other payables, amounts due from/to related parties, short-term bank loans 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, amounts due from/to related parties and certain sales and purchases of the Group are denominated in Hong Kong Dollars ("HK$") and United States Dollars ("US$"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

6. FINANCIAL INSTRUMENTS - CONTINUED

6B. Financial risk management objectives and polices - continued

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

	Assets		Liabilities	
	30.6.2010	31.12.2009	**30.6.2010**	31.12.2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**17,506**	7,826	**199**	1,198
HK$	**551,478**	27,912	**—**	61,293

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (31 December 2009: 5%) change in US$ and HK$ against RMB. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the period where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit for the period.

	Six months ended 30.6.2010 RMB'000	Year ended 31.12.2009 RMB'000
US$ impact	**757**	290
HK$ impact	**24,127**	(1,446)

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

6. FINANCIAL INSTRUMENTS - CONTINUED

6B. Financial risk management objectives and polices - continued

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to its variable-rate bank deposits. The Group has not entered into interest rate swaps to hedge against its exposure to changes in fair values of the borrowings. Currently, the Group does not have a specific policy to manage their 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 period. A 50 basis point (31 December 2009: 50 basis points) increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the six months ended 30 June 2010 would increase by approximately RMB2,678,000 (year ended 31 December 2009: RMB255,000).

In management's opinion, the Group does not have significant exposure to cash flow interest rate risk at 30 June 2010 attributable to decrease in interest rates of variable-rate bank deposits.

6. FINANCIAL INSTRUMENTS - CONTINUED

6B. Financial risk management objectives and polices - continued

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of the reporting period.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit quality, the financial conditions of the customers and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advance balance at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk in respect of bank balances. At 30 June 2010, approximately 93% (31 December 2009: 92%) of the bank balances were deposited at two (31 December 2009: two) banks. The credit risk on these liquid funds is limited because the counterparties are state-owned banks located in the PRC or banks with high credit ratings assigned by international credit-rating agencies.

At 31 December 2009, the Group had concentration of credit risk in respect of amounts due from related parties. In order to minimise the credit risk on amounts due from related parties, the management of the Group continuously monitor the credit quality and financial conditions of the related parties and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual advance balance at the end of the reporting period to ensure adequate impairment losses are made.

The Group has no significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers in the PRC. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

6. FINANCIAL INSTRUMENTS - CONTINUED

6B. Financial risk management objectives and polices - continued

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date at which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	On demand or less than six month, representing total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000
At 30 June 2010			
Trade and other payables	—	**31,700**	**31,700**
Amounts due to related parties	—	**459**	**459**
Short-term bank loans	**4.86**	**30,733**	**30,000**
		62,892	**62,159**
At 31 December 2009			
Trade and other payables	—	18,537	18,537
Amounts due to related parties	—	9,377	9,377
Amount due to a shareholder	—	52,713	52,713
		80,627	80,627

6. FINANCIAL INSTRUMENTS - CONTINUED

6C. Fair value

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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 reportable segments are as follows:

(a) Trauma products	Surgical treatment for bone fractures due to accidents, pathological or other reasons
(b) Spine products	Surgical treatment for spinal disorders, deformity, fractures and back pain conditions caused by degenerative disc disease or other pathological reasons
(c) Original equipment manufacturing ("OEM") products	Manufacturing of orthopaedic products in accordance with customers' orders and specifications
(d) Others	Medical instrument and other components

7. REVENUE AND SEGMENT INFORMATION - CONTINUED

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Segment revenue		
Trauma products	**75,753**	54,833
Spine products	**13,903**	13,464
OEM products	**22,604**	15,918
Others	**8,018**	4,365
Total revenue	**120,278**	88,580
Segment profit		
Trauma products	**61,730**	41,854
Spine products	**11,164**	11,397
OEM products	**13,107**	6,469
Others	**1,178**	1,883
Total segment profit	**87,179**	61,603
Unallocated income and other gains and losses	**348**	468
Unallocated expenses		
Distribution and selling expenses	**(7,488)**	(8,276)
Administrative and general expenses	**(17,056)**	(9,913)
Research and development expenses	**(3,272)**	(4,725)
Other expenses	**(13,608)**	(76)
Interest expense in relation to bank loans wholly repayable within five years	**(223)**	(468)
Share of loss of an associate	**—**	(198)
Profit before tax	**45,880**	38,415
Income tax expense	**(8,514)**	(5,734)
Profit for the period and total comprehensive income for the period	**37,366**	32,681

7. REVENUE AND SEGMENT INFORMATION - CONTINUED

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

The accounting policies of the 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 board of directors 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 the 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 major customer

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Customer A in OEM products segment	**22,604**	15,918

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Interest income	**272**	462
Net foreign exchange loss	**(451)**	(40)
Gain (loss) on disposal of property, plant and equipment	**111**	(88)
Fair value change of held for trading investments	**—**	13
Government grants	**299**	—
Others	**117**	121
	348	468

9. OTHER EXPENSES

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Donation	**200**	4
Legal and professional fees (Note)	**13,398**	—
Others	**10**	72
	13,608	76

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

10. PROFIT BEFORE TAX

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration (note 11)	**1,413**	798
Staff costs	**24,373**	15,902
Employees' retirement benefit schemes contributions	**1,670**	645
Total staff costs	**27,456**	17,345
Cost of inventories recognised as expense	**33,099**	26,977
Depreciation of property, plant and equipment	**4,586**	4,890
(Reversal of) write-down of inventories (Note)	**(879)**	1,937
Impairment losses on trade receivables	**953**	616
Impairment losses on other receivables	**135**	—
Operating lease rentals in respect of rented premises	**—**	348
Release of prepaid lease payments	**164**	216
Auditors remuneration	**850**	48

Note: The reversal of write-down of inventories was due to the increase in net realisable values of inventory items written-down in prior periods above their historical costs in current period.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Directors' emoluments:		
- salaries and other benefits	**1,411**	794
- retirement benefit schemes contributions	**2**	4
	1,413	798

	Salaries and other benefits RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
For the six months ended 30 June 2010:			
Mr. Qian	**628**	**—**	**628**
Ms. Xu	**472**	**—**	**472**
Mr. Cai Yong	**179**	**2**	**181**
Ms. Ren Feng Mei	**132**	**—**	**132**
	1,411	**2**	**1,413**
For the six months ended 30 June 2009 (unaudited):			
Mr. Qian	528	—	528
Ms. Xu	48	2	50
Mr. Cai Yong	86	2	88
Ms. Ren Feng Mei	132	—	132
	794	4	798

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - CONTINUED

Of the five individuals with highest emoluments in the Group, two (six months ended 30 June 2009: one) were directors of the Company whose emoluments are set out above. The emoluments of the remaining three (six months ended 30 June 2009: four) individuals were as follows:

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Employees		
- salaries and other benefits	**1,956**	835
- retirement benefit schemes contributions	**39**	—
	1,995	835

Their emoluments were within the following bands:

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
HK$nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**1**	—

During the six months ended 30 June 2010 and 2009, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the six months ended 30 June 2010 and 2009.

12. INCOME TAX EXPENSE

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Current tax:		
PRC enterprise income tax	**9,284**	6,645
Deferred tax credit:		
Current period (note 17)	**(770)**	(911)
	8,514	5,734

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 (Jiangsu) Medical Instrument Company Limited ("Trauson Jiangsu") and Changzhou Orthmed Medical Instrument Company Limited ("Orthmed Changzhou"), being both Foreign Investment Enterprise registered in Changzhou city, Jiangsu province in the PRC, are entitled to an exemption from EIT for two years starting from their first profit-making year, followed by a 50% tax relief for the following three years. Trauson Jiangsu was entitled to and enjoyed the first tax exemption year in 2006, and a 50% tax relief for the three years ending 31 December 2010. Orthmed Changzhou 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 period can be reconciled to profit before tax as follows:

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Profit before tax	**45,880**	38,415
Tax at the PRC income tax rate of 25%	**11,470**	9,604
Tax effect of share of loss of an associate	**—**	50
Tax effect of expenses not deductible for tax purpose	**1,049**	296
Tax effect of income not taxable for tax purpose	**—**	(21)
Tax effect of tax losses not recognised	**255**	148
Effect of tax exemptions granted to PRC subsidiaries	**(6,295)**	(5,921)
Effect of a 50% tax reduction granted to PRC subsidiaries	**(466)**	(268)
Differential tax rate on temporary differences	**(439)**	(363)
Withholding income tax on profits of PRC subsidiaries	**2,940**	2,209
Taxation for the period	**8,514**	5,734

13. EARNINGS PER SHARE

	Six months ended	
	30.6.2010	30.6.2009 (unaudited)
Profits		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	**37,366**	32,681
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**565,607,735**	562,500,000

The number of shares for the purpose of basic earnings per share has been determined on the assumption that the ordinary shares of the Company issued upon the Group Reorganisation have been in issue on 1 January 2009 and taking into account of weighted average number of new ordinary shares issued on 28 June 2010 pursuant to the Company's initial public offering.

The Group has no potential ordinary shares throughout the six months ended 30 June 2010 and 2009.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2009	41,243	52,179	8,897	7,634	—	109,953
Additions	772	2,295	2,269	746	15,918	22,000
Disposals	—	(420)	(197)	(457)	—	(1,074)
Disposal of a subsidiary	(9,533)	—	(406)	—	—	(9,939)
Transfer of the Old Shanghai Trading Entities	—	—	(457)	(1,128)	—	(1,585)
Transfers	—	21	—	—	(21)	—
At 31 December 2009	32,482	54,075	10,106	6,795	15,897	119,355
Additions	53	2,549	825	3,530	33,984	40,941
Disposals	—	(970)	—	(1,926)	—	(2,896)
At 30 June 2010	32,535	55,654	10,931	8,399	49,881	157,400
DEPRECIATION						
At 1 January 2009	7,244	10,666	4,028	2,442	—	24,380
Provided for the year	2,195	4,900	1,660	1,212	—	9,967
Eliminated on disposals	—	(226)	(115)	(420)	—	(761)
Eliminated on disposal of a subsidiary	(2,943)	—	(182)	—	—	(3,125)
Eliminated on transfer of the Old Shanghai Trading Entities	—	—	(284)	(334)	—	(618)
At 31 December 2009	6,496	15,340	5,107	2,900	—	29,843
Provided for the period	744	2,485	800	557	—	4,586
Eliminated on disposals	—	(280)	—	(1,513)	—	(1,793)
At 30 June 2010	7,240	17,545	5,907	1,944	—	32,636
CARRYING VALUES						
At 30 June 2010	25,295	38,109	5,024	6,455	49,881	124,764
At 31 December 2009	25,986	38,735	4,999	3,895	15,897	89,512

14. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account residual value, at the following rates per annum:

Buildings	4.5%
Plant and machinery	9.0%
Furniture, fixtures and equipment	18.0%
Motor vehicles	18.0%

15. PREPAID LEASE PAYMENT

	30.6.2010	31.12.2009
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**432**	432
Non-current assets	**19,984**	20,148
	20,416	20,580

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

On 15 December 2009, the Group entered into a conditional agreement with Wujin Reserve Centre (武進區土地儲備中心), an independent third party and an institution directly under the People's Government of Wujin District, for the disposal of land use rights with a carrying amount at RMB14,988,000 at 31 December 2009 for consideration of RMB14,988,000, subject to the successful onwards sale of the land use rights by way of a public auction. The land use rights was disposed on 9 April 2010 at RMB14,988,000.

16. INTANGIBLE ASSET

	Development costs RMB'000
COST AND CARRYING VALUE	
At 1 January 2009	—
Additions	2,723
At 31 December 2009	2,723
Additions	1,380
At 30 June 2010	4,103

Development costs are internally generated during the year/period. 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.

17. DEFERRED TAXATION

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

	Write-down of inventories RMB'000	Other provisions RMB'000	Withholding tax on undistributed profits RMB'000	Total RMB'000
At 1 January 2009	2,204	517	(1,507)	1,214
Reversal upon payment of withholding tax	—	—	3,405	3,405
Credit (charge) to consolidated statement of comprehensive income for the year	52	116	(3,273)	(3,105)
At 31 December 2009	2,256	633	(1,375)	1,514
Reversal upon payment of withholding tax	—	—	1,331	1,331
Credit (charge) to consolidated statement of comprehensive income for the period (note 12)	173	1,037	(1,771)	(561)
At 30 June 2010	**2,429**	**1,670**	**(1,815)**	**2,284**

17. DEFERRED TAXATION - CONTINUED

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

	30.6.2010 RMB'000	31.12.2009 RMB'000
Deferred tax assets	**4,099**	2,889
Deferred tax liabilities	**(1,815)**	(1,375)
	2,284	1,514

Except for the PRC withholding income tax provided as above, no deferred taxation has been provided for the retained profits of approximately RMB4,100,000 (31 December 2009: nil), which were derived from the PRC entities since 1 January 2008 as the directors of the Company anticipate that no dividends will be distributed from these profits in the foreseeable future.

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

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

18. INVENTORIES

	30.6.2010 RMB'000	31.12.2009 RMB'000
Raw materials	**12,320**	14,539
Work-in-progress	**13,734**	15,517
Finished goods	**20,822**	13,501
	46,876	43,557

19. TRADE AND OTHER RECEIVABLES

	30.6.2010 RMB'000	31.12.2009 RMB'000
Trade receivables	**80,735**	55,289
Less: allowance for doubtful debts	**(3,072)**	(2,119)
	77,663	53,170
Advance to suppliers	**3,248**	12,240
Other receivables	**2,595**	2,324
Deposits	**1,824**	1,433
Prepaid expenses	**129**	173
	85,459	69,340

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

	30.6.2010 RMB'000	31.12.2009 RMB'000
0 to 90 days	**62,187**	39,460
91 to 180 days	**12,314**	6,871
181 to 360 days	**2,568**	5,294
Over 360 days	**594**	1,545
	77,663	53,170

At 30 June 2010, included in the Group's trade receivables are debtors with a carrying amount of RMB15,476,000 (31 December 2009: RMB13,710,000), which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The trade receivables past due but not impaired are aged over 90 days based on the invoice date at the end of the reporting period, and their ageing analysis are set out in the preceding table.

19. TRADE AND OTHER RECEIVABLES - CONTINUED

Movements in the allowance for doubtful debts for the six months ended 30 June 2010:

	30.6.2010	31.12.2009
	RMB'000	RMB'000
At beginning of the period/year	**2,119**	1,503
Impairment losses recognised on trade receivables	**953**	616
At end of the period/year	**3,072**	2,119

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors 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 in RMB and stated for reporting purposes as:

	30.6.2010	31.12.2009
	RMB'000	RMB'000
Trade receivables denominated in US$	**15,922**	6,542

20. AMOUNTS DUE FROM RELATED PARTIES

	30.6.2010 RMB'000	31.12.2009 RMB'000
Non-trading in nature		
Jiangsu Duoliang Venture Investment Co., Ltd. ("Duoliang Investment") (note a)	—	9,706
Fully Creation Investment Limited ("Fully Creation") (note b)	—	27,779
	—	37,485

	Maximum amount outstanding	
	Six months ended 30.6.2010 RMB'000	Year ended 31.12.2009 RMB'000
Duoliang Investment	9,706	9,706
Mr. Qian	614	11,000
Fully Creation	27,779	27,779

Notes:

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

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

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 0.36% per annum (31 December 2009: 0.10% to 1.71% per annum).

The Group's bank balances and cash that were denominated in currencies other than the functional currency of the relevant group entities are set out below:

	30.6.2010	31.12.2009
	RMB'000	RMB'000
Dominated in:		
US$	**1,584**	1,247
HK$	**551,478**	108

Certain bank balances and cash of the Group of approximately RMB59,097,000 (31 December 2009: RMB57,039,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is controlled by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

22. TRADE AND OTHER PAYABLES

	30.6.2010	31.12.2009
	RMB'000	RMB'000
Trade payables	**10,796**	8,900
Advance from customers	**2,040**	7,090
Payroll payables	**8,564**	8,612
Accrued expenses	**11,485**	7,248
Other tax liabilities	**3,683**	3,836
Other payables	**12,340**	1,025
	48,908	36,711

22. 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:

	30.6.2010 RMB'000	31.12.2009 RMB'000
0 to 90 days	10,079	8,237
91 to 180days	313	142
181 to 360 days	218	401
Over 360 days	186	120
	10,796	8,900

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

	30.6.2010 RMB'000	31.12.2009 RMB'000
Trade payables denominated in US$	50	662

23. AMOUNTS DUE TO RELATED PARTIES

	30.6.2010 RMB'000	31.12.2009 RMB'000
Trading in nature		
Changzhou Cofey Refrigeration Equipment Co., Ltd. ("Changzhou Cofey") (note a)	310	184
Biorth Incorporation ("Biorth") (note b)	108	25
Metro Enterprises Corporation ("Metro Enterprises") (note c)	41	583
	459	792
Non-trading in nature		
Plusrite Electric (Jiangsu) Co., Ltd. ("Plusrite Jiangsu") (note d)	—	8,585
	459	9,377

23. AMOUNTS DUE TO RELATED PARTIES - CONTINUED

Notes:

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

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

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

(d) Plusrite Jiangsu is wholly owned by Ms. Xu. The balance represented non-trading advances to which was unsecured, interest-free and repayable on demand.

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

	30.6.2010 RMB'000	31.12.2009 RMB'000
0 to 90 days	310	265
91 to 180 days	74	—
181 to 360 days	75	527
	459	792

The amounts due to related parties are unsecured, non-interest bearing and to be settled in accordance with an agreed credit term ranging from 0 to 90 days for those trading in nature.

The Group's amounts due to related parties that were denominated in US$, foreign currency of the relevant group entities, were re-translated in RMB and stated for reporting purpose as:

	30.6.2010 RMB'000	31.12.2009 RMB'000
Amounts due to related parties denominated in US$	149	608

24. AMOUNTS DUE TO A SHAREHOLDER

	30.6.2010 RMB'000	31.12.2009 RMB'000
Ms. Xu	—	52,713

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

25. SHORT-TERM BANK LOANS

The short-term bank loans are unsecured and carry fixed interest rate at 4.86% per annum.

26. SHARE CAPITAL

	Number of shares	Amounts
		HKD'000
Ordinary shares of HKD0.10 each:		
Authorised		
At date of incorporation and at 30 June 2010	100,000,000,000	10,000,000
Issued and fully paid		
At date of incorporation	1	—
Issue of new shares pursuant to the Group Reorganisation	562,499,999	56,250
Issue of new shares pursuant to the initial public offering	187,500,000	18,750
At 30 June 2010	750,000,000	75,000

	RMB'000
Shown in the consolidated statement of financial position:	
At 30 June 2010	66,000
At 31 December 2009	20

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

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

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

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

The share capital at 31 December 2009 represented the aggregate share capital of Trauson Hong Kong and Orthmed Hong Kong, which are the then holding companies of the operating subsidiaries of the Group in the PRC at that date.

27. RESERVES

Special reserve

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

Statutory surplus reserve

In accordance with relevant laws and regulations in the PRC, the PRC subsidiaries are required to transfer at least 10% of their profit after taxation reported in their statutory financial statements prepared under the applicable PRC accounting standards to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC subsidiaries' registered capital.

The statutory surplus reserves can be used to make up losses or for conversion into capital. The PRC subsidiaries may, upon the approval by a resolution of the owners, convert their surplus reserves into capital in proportion to their then existing capital contribution. However, when converting the PRC subsidiaries' statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

28. 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 2010, such claims amounted to approximately RMB2 million (31 December 2009: RMB2 million), except for one case of court litigation pursuant to which the plaintiff claimed unspecified damages for alleged unsatisfactory orthopaedic operation involving the Group's products. The directors of the Company are not able to quantify reliably such claim as at 30 June 2010.

After seeking legal opinion and taking into account the facts that (i) for cases that were settled in prior periods, the Group has a history of winning substantially all cases as the plaintiffs could not prove the Group's products in questions to be defective or do not meet the required quality standards; and (ii) for two cases which the Group was held liable, the amount paid by the Group is less than 1% of the relevant claim. As such, the directors of the Company are of the opinion that those unsettled claims are without merits and no provision is necessary.

29. CAPITAL COMMITMENTS

	30.6.2010	31.12.2009
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**6,026**	3,109

30. 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 contribution 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 21% of basic salaries of the employees 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 RMB1,672,000 (six months ended 30 June 2009: RMB649,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 30 June 2010, contributions of approximately RMB2,843,000 (31 December 2009: RMB2,458,000) due in respect of current and prior accounting periods had not been paid over to the schemes.

31. NON-CASH TRANSACTIONS

During the six months ended 30 June 2010, the Group entered into agreements with its related parties to restructure amounts due from/to related parties and a shareholder prior to the listing of the Company's shares on the Stock Exchange. According to these debts restructuring agreements, the related parties transferred their amounts due from/to the Group to a shareholder of the Company. The net balance of amount due to a shareholder amounting to approximately RMB33,519,000 was paid to a shareholder during the period.

32. RELATED PARTY TRANSACTIONS

During the period, other than those disclosed in notes 20, 23 and 24, the Group had the following significant transactions with related parties:

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Processing fee charge		
Changzhou Cofey	**537**	206
Interest income from loan		
Plusrite Jiangsu	**—**	220
Douliang Investment	**—**	193
Purchase of raw materials		
Metro Enterprises	**—**	4,684
Biorth	**234**	479
Rental paid		
Ms. Xu	**—**	348

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
		(unaudited)
Salaries and other benefits	**2,997**	1,216
Retirement benefits scheme contributions	**33**	5
	3,030	1,221

33. EVENTS AFTER THE REPORTING PERIOD

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

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Palce and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable interest of the Group 30.6.2010	Attributable interest of the Group 31.12.2009	Principal activities
Trauson (Hong Kong) Company Limited	Hong Kong 18 November 2005	HK$10,000	100%	100%	Investment holding
Trauson (Jiangsu) Medical Instrument Company Limited	PRC 18 September 2003 (wholly-foreign owned enterprise)	RMB155,657,907	100%	100%	Research, design, manufacture and sales of orthopaedic implants and medical instruments
Orthmed (Hong Kong) Medical Instrument Company Limited	Hong Kong 18 October 2007	HK$10,000	100%	100%	Investment holding
Changzhou Orthmed Medical Instrument Company Limited	PRC 4 December 2002 (wholly-foreign owned enterprise)	US$5,600,000	100%	100%	Research, design, manufacture and sales of orthopaedic implants and medical instruments
Trauson Holdings (Hong Kong) Company Limited (formerly Know as Trauson Holdings Company Limited)	Hong Kong 10 November 2008	HK$10,000	100%	100%	Investment holding
Trauson Holdings (BVI) Company Limited (note)	British Virgins Islands 27 January 2010	US$1	100%	—	Investment holding

Note: Directly set up and held by the Company

TRAUSON

Trauson Holdings Company Limited

創生控股有限公司