LifeTech Scientific Corporation

先 健 科 技 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1302)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 June 2014 was approximately RMB135.7 million, representing an increase of approximately 24.8% or approximately RMB27.0 million as compared to the corresponding period in 2013.
- Operating profit for the six months ended 30 June 2014 was approximately RMB25.4 million, representing a slight increase of approximately 3.3% as compared to the corresponding period in 2013. The small growth was primarily due to the payment of service fee of approximately RMB20.7 million to Medtronic pursuant to the service agreement entered into in 2012 and the second supplemental service agreement entered into in 2014 (corresponding period in 2013: approximately RMB4.7 million). The Company will benefit from the extensive international capabilities and cutting edge industry expertise of Medtronic. For illustrative purpose, with the exclusion of the payment of service fee to Medtronic, the Company would have recorded the operating profit of approximately RMB46.1 million for the six months ended 30 June 2014, representing an increase of approximately 57.3% as compared with the corresponding period in 2013.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2014 was approximately RMB199.2 million (corresponding period in 2013: approximately RMB56.0 million), primarily due to the record of fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013 of approximately RMB239.7 million. The fair value loss on convertible notes is a non-operating and non-cash flow item. Excluding the influence of this part, the Company would have recorded profit attributable to owners of the Company of approximately RMB40.5 million for the six months ended 30 June 2014, representing a high growth as compared to the corresponding period in 2013.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2014.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board (the "Board") of directors (the "Directors") of LifeTech Scientific Corporation (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014 together with the comparative figures for the corresponding period in 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTES	**Six months ended 30 June 2014 RMB'000 (Unaudited)**	2013 RMB'000 (Unaudited)
Revenue	4	**135,704**	108,693
Cost of sales		**(23,867)**	(18,626)
Gross profit		**111,837**	90,067
Other income and other gains and losses		**2,576**	(3,017)
Selling and distribution expenses		**(32,662)**	(24,782)
Administration expenses		**(39,794)**	(24,090)
Research and development expenses		**(16,542)**	(13,577)
Operating profit		**25,415**	24,601
Finance income		**1,850**	1,249
Finance costs		**(5,544)**	(4,287)
Finance costs, net		**(3,694)**	(3,038)
Share of results of an associate		**224**	(8,632)
Gain on disposal of an associate	23	**24,570**	—
Net exchange (loss) gain on convertible notes	17	**(1,827)**	2,226
Fair value loss on convertible notes	17	**(239,706)**	(63,956)
Loss before tax	5	**(195,018)**	(48,799)
Income tax expense	6	**(3,959)**	(7,117)
Loss for the period		**(198,977)**	(55,916)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation foreign operations		**(256)**	539
Share of exchange loss of an associate		**—**	(78)
Reversal of cumulative translation reserve of an associate		**54**	—
Other comprehensive (expense) income for the period		**(202)**	461
Total comprehensive expense for the period		**(199,179)**	(55,455)
Loss for the period attributable to:			
Owners of the Company		**(199,236)**	(56,040)
Non-controlling interests		**259**	124
		(198,977)	(55,916)

	NOTE	Six months ended 30 June **2014** **RMB'000** **(Unaudited)**	 2013 RMB'000 (Unaudited)
Total comprehensive expense attributable to:			
Owners of the Company		**(199,438)**	(55,579)
Non-controlling interests		**259**	124
		(199,179)	(55,455)
Loss per share	8		
– Basic (RMB)		**(0.398)**	(0.112)
– Diluted (RMB)		**(0.398)**	(0.112)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	NOTES	**30 June 2014 RMB'000 (Unaudited)**	31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**47,467**	34,044
Investment properties		**1,729**	1,766
Intangible assets	9	**39,515**	31,757
Prepaid lease payments	10	**35,164**	35,800
Deposits for acquisition of property, plant and equipment		**1,332**	2,340
Deferred tax assets		**17,074**	17,350
Interests in associates	11	**1,350**	1,126
Deposits for acquisition of long term investment/intangible asset	12	**31,055**	30,887
		174,686	155,070
Current assets			
Inventories		**37,015**	32,559
Trade and bill receivables	14	**57,342**	49,166
Other receivables and prepayments		**54,793**	17,942
Loan receivable	13	**—**	32,000
Amount due from a shareholder	22	**8,518**	—
Prepaid lease payments	10	**1,271**	1,271
Structured deposits		**7,650**	6,500
Bank balances and cash		**222,932**	225,468
		389,521	364,906
Current liabilities			
Trade and other payables	15	**46,862**	47,264
Tax payables		**12,860**	18,050
Amount due to a shareholder	22	**7,348**	12,164
		67,070	77,478

	NOTES	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Net current assets		**322,451**	287,428
Total assets less current liabilities		**497,137**	442,498
Non-current liabilities			
Government grants	16	**24,933**	18,192
Convertible notes	17	**73,266**	67,058
Conversion option derivative liability	17	**362,070**	121,201
		460,269	206,451
Net assets		**36,868**	236,047
Capital and reserves			
Share capital	18	**32**	32
Share premium and reserves		**32,048**	231,486
Equity attributable to owners of the Company		**32,080**	231,518
Non-controlling interests		**4,788**	4,529
Total equity		**36,868**	236,047

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (Note i)	Capital reserve RMB'000	Contribution reserve RMB'000 (Note ii)	Accumulated losses RMB'000	Total RMB'000	RMB'000	RMB'000
At 1 January 2013	32	251,593	792	19,244	(277)	32,531	(7,348)	296,567	4,243	300,810
Loss for the period	—	—	—	—	—	—	(56,040)	(56,040)	124	(55,916)
Other comprehensive income for the period	—	—	461	—	—	—	—	461	—	461
Total comprehensive income (expense) for the period	—	—	461	—	—	—	(56,040)	(55,579)	124	(55,455)
At 30 June 2013 (unaudited)	32	251,593	1,253	19,244	(277)	32,531	(63,388)	240,988	4,367	245,355
At 1 January 2014	**32**	**251,593**	**1,409**	**28,984**	**(421)**	**32,531**	**(82,610)**	**231,518**	**4,529**	**236,047**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(199,236)**	**(199,236)**	**259**	**(198,977)**
Other comprehensive expense for the period	**—**	**—**	**(202)**	**—**	**—**	**—**	**—**	**(202)**	**—**	**(202)**
Total comprehensive expense for the period	**—**	**—**	**(202)**	**—**	**—**	**—**	**(199,236)**	**(199,438)**	**259**	**(199,179)**
At 30 June 2014 (unaudited)	**32**	**251,593**	**1,207**	**28,984**	**(421)**	**32,531**	**(281,846)**	**32,080**	**4,788**	**36,868**

Notes:

(i) Statutory surplus reserve is non-distributable and the transfer to this reserve is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of the PRC subsidiaries in accordance with the Article of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.

(ii) Contribution reserve represents the difference between the fair value of the consideration paid for the acquisition of Lifetech Scientific (Shenzhen) Co., Ltd. 先健科技(深圳)有限公司 from shareholders and the carrying amount of the share of net assets acquired in August 2006 and it is regarded as a deemed contribution from shareholders under merger accounting.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(18,585)**	10,730
INVESTING ACTIVITIES		
Deposits paid for and purchase of property, plant and equipment	**(15,284)**	(3,839)
Interest received from structured deposits	**188**	199
Interest received from loan receivable	**1,312**	392
Expenditure incurred and capitalised as intangible assets	**(8,315)**	(5,688)
Deposits paid for acquisition of long term investment/intangible assets	**—**	(12,600)
Structured deposits placed	**(15,200)**	(10,000)
Release of structured deposits	**14,050**	14,250
Government grants received for acquisition of plant and equipment	**7,500**	500
Loan advanced	**32,000**	(32,000)
Purchases of prepaid lease payments	**—**	(38,131)
Advance to an associate	**—**	(3,089)
Other investing cash flows	**—**	265
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**16,251**	(89,741)
FINANCING ACTIVITIES		
Net proceeds on issue of convertible notes	**—**	118,990
New bank loans raised	**—**	35,000
NET CASH FROM FINANCING ACTIVITIES	**—**	153,990
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,334)**	74,979
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**225,468**	198,443
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(202)**	461
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash	**222,932**	273,883

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 17 August 2006 as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "HKSE") until 5 November 2013 when its shares were delisted from the Growth Enterprise Market of HKSE and listed on the Main Board of HKSE by way of transfer of listing. Its ultimate controlling shareholders are Mr. Xie Yuehui, Mr. Wu Jianhui and Medtronic, Inc. ("Medtronic"). A controlling shareholder, Mr. Xie Yuehui, is also the Chairman and Managing Director of the Company. The address of the registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands, and the address of the principal place of business is Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are development, manufacture and trading of advanced interventional medical devices for cardiovascular and peripheral vascular diseases and disorders.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and the Group's major operating subsidiaries.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In addition, in the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB that are mandatorily effective for the current interim period.

The application of the above new interpretation and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Investment in associates

An associate is an entity over which the Group has significant influence. 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 these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. PRINCIPAL ACCOUNTING POLICIES - continued

Investment in associates - continued

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39.The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

4. SEGMENT INFORMATION

The segment information reported internally was analysed on the basis of their products supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by executive directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating segments under IFRS 8 are as follows:

- Congenital heart diseases business: trade, manufacture, research and development of devices related to congenital and structural heart diseases.
- Peripheral vascular diseases business: trade, manufacture, research and development of devices related to peripheral vascular diseases.
- Surgical vascular repair business: trade, manufacture, research and development of devices related to surgical vascular repair.

Information regarding the above segments is reported below.

4. **SEGMENT INFORMATION** - continued

(a) **Segment revenue and results**

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

	Congenital heart diseases business RMB'000 (Unaudited)	Peripheral vascular diseases business RMB'000 (Unaudited)	Surgical vascular repair business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2014				
SEGMENT REVENUE				
External sales	61,158	74,540	6	135,704
Segment profit	49,134	62,701	2	111,837
Unallocated income				
– Other income and other gains and losses				2,576
– Finance income				1,850
– Share of gain of an associate				224
– Gain on disposal of an associate				24,570
Unallocated expense				
– Selling and distribution expenses				(32,662)
– Administration expenses				(39,794)
– Research and development expenses				(16,542)
– Finance costs				(5,544)
– Net exchange loss on convertible notes				(1,827)
– Fair value loss on convertible notes				(239,706)
Loss before tax				(195,018)

4. SEGMENT INFORMATION - continued

(a) Segment revenue and results - continued

	Congenital heart diseases business RMB'000 (Unaudited)	Peripheral vascular diseases business RMB'000 (Unaudited)	Surgical vascular repair business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2013				
SEGMENT REVENUE				
External sales	53,526	54,966	201	108,693
Segment profit	43,615	46,433	19	90,067
Unallocated income				
– Finance income				1,249
– Net exchange gain on convertible notes				2,226
Unallocated expense				
– Other income and other gains and losses				(3,017)
– Selling and distribution expenses				(24,782)
– Administration expenses				(24,090)
– Research and development expenses				(13,577)
– Finance costs				(4,287)
– Share of loss of an associate				(8,632)
– Fair value loss on convertible notes				(63,956)
Loss before tax				(48,799)

Segment loss represents the gross loss incurred by each segment without allocation of all other items of income and expenses, as set out above. This is the measure reported to the chief operating decision maker, the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance.

4. **SEGMENT INFORMATION** - continued

(b) **Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

Segment assets

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Operating segments:		
Congenital heart diseases business	**115,116**	102,557
Peripheral vascular diseases business	**134,705**	94,625
Surgical vascular repair business	**6,311**	4,816
Total segment assets	**256,132**	201,998
Unallocated assets		
Property, plant and equipment	**519**	544
Investment properties	**1,729**	1,766
Deferred tax assets	**17,074**	17,350
Interests in associates	**1,350**	1,126
Deposits for acquisition of long term investment/intangible asset	**31,055**	30,887
Other receivables and prepayments	**25,766**	2,337
Loan receivable	**—**	32,000
Structured deposits	**7,650**	6,500
Bank balances and cash	**222,932**	225,468
Consolidated assets	**564,207**	519,976

4. **SEGMENT INFORMATION** - continued

(b) **Segment assets and liabilities** - continued

Segment liabilities

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Operating segments:		
Congenital heart diseases business	**1,446**	1,778
Peripheral vascular diseases business	**2,157**	1,922
Surgical vascular repair business	**130**	133
Total segment liabilities	**3,733**	3,833
Unallocated liabilities		
Other payables	**40,073**	45,001
Tax payables	**12,860**	18,050
Government grants	**35,337**	28,786
Convertible notes	**73,266**	67,058
Conversion option derivative liability	**362,070**	121,201
Consolidated liabilities	**527,339**	283,929

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, structured deposits, deferred tax assets, investment properties, certain other receivables and prepayments, interests in associates, deposits for acquisition of long term investment/ intangible asset, loan receivable, and property, plant and equipment, and
- only trade payables are allocated to operating segments in arriving at segment liabilities, which therefore exclude government grants (include current portion under other payables and non-current portion), tax payables, certain other payables, convertible notes and conversion option derivative liability.

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
Salaries, wages and other benefits	**33,197**	25,579
Retirement benefits scheme contributions	**2,302**	1,937
Less: capitalised in development costs	**(3,576)**	(3,291)
	31,923	24,225
Auditor's remuneration	**71**	451
Cost of inventories recognised as expenses	**23,867**	18,626
Depreciation of property, plant and equipment	**2,869**	2,854
Depreciation of investment properties	**37**	37
Amortisation charge of intangible assets	**557**	543
Release of prepaid lease payments	**636**	424
Operating lease rentals in respect of rental premises	**3,875**	3,205
Government grants	**(1,180)**	(1,169)
Interest on bank deposits	**(349)**	(657)
Interest on structured deposits	**(188)**	(199)
Interest on loan receivable	**(1,312)**	(392)
Interest expense on bank borrowings	**—**	159
Effective interest expense on convertible notes	**5,544**	4,128
Gross rental income from investment properties	**(611)**	(606)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**37**	37
	(574)	(569)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("PRC EIT")	**3,683**	12,182
Deferred tax		
Current period	**276**	(5,065)
	3,959	7,117

The Company is tax exempted under the laws of the Cayman Islands. New Centre International Limited 新城市國際有限公司, a subsidiary of the Company, is subject to Hong Kong Profits Tax rate of 16.5% on assessable profits earned in Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

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% except that two major operating subsidiaries in the PRC were qualified as High and New Technology Enterprises since 2009, and are entitled to a preferential income tax rate of 15%. The qualification of High and New Technology Enterprises is subject to review once every three years and the two major operating subsidiaries continued to be recognised as a hi-tech enterprise for the years ended 31 December 2014 and 2013.

For other PRC subsidiaries which are located in Special Economic Zone of the PRC, their applicable income tax rates are 25% for the period ended 30 June 2014 and 2013 respectively.

The applicable income tax rate of Lifetech Scientific India Private Ltd. is 30.9% on its taxable profits.

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim periods ended 30 June 2014 and 2013. The directors do not recommend the payment of an interim dividend.

8. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the purpose of basic loss per share	**(199,236)**	(56,040)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share (in thousands)	**500,000**	500,000

The computation of diluted loss per share for the six months ended 30 June 2014 and the corresponding period in 2013 do not assume the conversion of convertible notes because the conversion of convertible notes would result in decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGBILE ASSETS

During the current period, the Group spent approximately RMB16,292,000 (six months ended 30 June 2013: RMB3,111,000) for the acquisition of property, plant and equipment to update its manufacturing capabilities.

During the current period, the Group incurred approximately RMB8,303,000 (six months ended 30 June 2013: RMB5,613,000) of development expenditure for the development of congenital heart diseases business and peripheral vascular diseases business, which together with expenditure of approximately RMB12,000 (six months ended 30 June 2013: RMB75,000) for purchase of intangible assets.

10. PREPAID LEASE PAYMENTS

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current asset	**1,271**	1,271
Non-current asset	**35,164**	35,800
	36,435	37,071

The Group's prepaid lease payments represent payment for land use rights in the PRC which are held under medium-term leases.

11. INTERESTS IN ASSOCIATES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Cost of investments, unlisted	**1,008**	22,686
Share of post-acquisition reserves	**342**	(21,560)
	1,350	1,126

11. INTERESTS IN ASSOCIATES - continued

As at 30 June 2014 and 31 December 2013, the Group had interest in the following associates which were established by the Group and other shareholder:

Name of entity	Proportion of Ownership interest and voting rightes held by the Group		Place of establishment/ operation	Share capital	Principal activity
	2014	2013			
Broncus Holding Corporation ("Broncus") (note 23)	**—**	40%	Cayman Islands/ United States of America	USD1,000	Investment holding and developing, and commercialising solutions for diagnosing and treating lung diseases
Shenzhen EnKe Medical Corporation Co., Ltd. ("Enke Medical") 深圳市恩科醫療科技有限公司	**49%**	49%	The PRC	RMB1,000,000	Trading of medical devices

12. DEPOSITS FOR ACQUISITION OF LONG TERM INVESTMENT/INTANGIBLE ASSETS

The Group had entered into a strategic partnership agreement with an independent third party which manages and operates an investment fund on 12 April 2012 to enter into a long-term strategic alliance and equal partnership to collaborate across incubation projects over the period up to 12 April 2014. Deposits for acquisition of long term investment represented the consideration paid by the Group for the acquisition of options, on a priority basis, to invest or co-invest in any and/or all incubation projects and to acquire distribution rights, manufacturing rights and intellectual property licenses with respect to the incubation projects. The Group has the right to join and become a member of the investment committee of the investment fund. Further, the Group has the rights to request for all or a portion of the deposit to be converted to one or more incubation projects investments. The deposit is non-refundable. The Group had entered into a supplementary agreement to the strategic partnership agreement, extending expiry date from 12 April 2014 to 12 September 2014. As at 30 June 2014, none of the deposit monies have been used by the investment fund on any incubation projects yet.

As at 30 June 2014, the deposits also include a deposit for acquisition of intangible assets of RMB12,600,000. On 28 March 2013, the Group advanced RMB12,600,000 to the same independent third party in order to obtain the priority for acquiring the exclusive distribution right to sell the designated products in the event of the successful of application of licenses of the designated products within a predetermined period as defined in the agreement. The deposit is refundable, subject to the occurrence of specific events as defined in the agreement signed between the Company and the independent third party.

13. LOAN RECEIVABLE

On 28 April 2013, the Group and Shanghai Pudong Development Bank Shenzhen Branch (the "Lending Agent") entered into the Entrusted Loan Agency Agreement, pursuant to which the Lending Agent agreed to act as the lending agent under the Entrusted Loan Agreement in return for an agency fee of 0.03% of the loan amount, subject to and upon the terms and conditions therein. On the same date, the Group entered into the Entrusted Loan Agreement with an independent third party (the "Borrower") and the Lending Agent, pursuant to which the Group agreed to entrust the amount of RMB32,000,000 to the Lending Agent, for on-lending to the Borrower for a term of one year subject to the terms and conditions under the Entrusted Loan Agency Agreement. The loan receivable bears interests at 7% per annum, unsecured and is repayable on 28 April 2014. The Lending Agent has assessed the counterparty's credit quality and the recoverability of this loan receivable. In the opinion of the directors of the Company, the Lending Agent is satisfied with the credit risks assessment on the Borrower and the lending arrangement is suitable for the risk acceptance level of the Group on the basis of the standard review procedures carried out by, and the judgment of, the Lending Agent. In the opinion of the Directors, the Borrower is of good credit quality based on Lending Agent's regular assessment of such loan and the absence of any default record in the past. As at 30 June 2014, the Group has received all the loan receivable from the Lending Agent.

14. TRADE AND BILL RECEIVABLES

The Group normally allows a credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade and bill receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
1 - 90 days	**44,462**	41,569
91 - 180 days	**5,026**	5,667
181 - 365 days	**6,010**	1,421
Over 365 days	**1,844**	509
	57,342	49,166

15. TRADE PAYABLES

The credit period granted by suppliers to the Group ranged from 30 to 120 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0 - 30 days	**1,345**	1,811
31 - 60 days	**1,181**	1,047
61 - 120 days	**512**	227
Over 120 days	**695**	748
	3,733	3,833

16. GOVERNMENT GRANTS

Government grants include subsidies in relation to the acquisition of plant and equipment and the research and development of medical devices. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. During the six months ended 30 June 2014, approximately RMB231,000 and RMB7,500,000 subsidies relating to research and development of medical devices and the acquisition of plant and equipment, respectively, have been received (30 June 2013: RMB1,327,000 and RMB500,000). The Group recognised income of approximately RMB1,180,000 (30 June 2013: RMB1,169,000) during the six months ended 30 June 2014. The current portion of government grants, which include subsidies in relation to research and development of medical devices that have not yet been recognised in profit or loss, are included in other payables. The non-current portion of government grants, which include subsidies in relation to the acquisition of plant and equipment that have not yet been recognised in profit or loss, are included in non-current liability.

17. CONVERTIBLE NOTES

On 30 January 2013, the Company issued Hong Kong dollars ("HK$")152,000,000 unsecured 1% convertible notes due 2018 ("Convertible Notes"). The Convertible Notes bear interest at 1% per annum and mature on 29 January 2018 ("Maturity Date"). The holder of the Convertible Notes has the right to convert the principal amount of Convertible Notes into shares of the Company at an initial conversion price of HK$3.8 per share. The Company may not redeem the Convertible Notes at its option prior to the Maturity Date. The noteholder will have the right at noteholder's option, to require the Company to redeem all or part of the Convertible Notes prior to the Maturity Date at a price equal to their principal amount and interest accrued to the date fixed for redemption subject to the occurrence of specific events as defined in the terms and conditions of the relevant investment agreement.

The Convertible Notes contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 16.64% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss. On initial recognition, the total fair value of the Convertible Notes is approximately RMB208,351,000 which is higher than the principal amount of the Convertible Notes of HK$152,000,000 (equivalent to approximately RMB123,348,000) and resulted in a loss on fair value of approximately RMB85,003,000 on initial recognition of the Convertible Notes. The transaction cost for the issuance of Convertible Notes is approximately RMB4,358,000.

17. CONVERTIBLE NOTES - continued

The movement of the liability component and conversion option derivative of the Convertible Notes for the period is set out as below:

	Liability component RMB'000	**Conversion option derivative RMB'000**
At 1 January 2014	**67,058**	**121,201**
Exchange realignment	**664**	**1,163**
Interest charge	**5,544**	**—**
Fair value loss	**—**	**239,706**
At 30 June 2014	**73,266**	**362,070**

	Liability component RMB'000	Conversion option derivative RMB'000
At initial recognition	60,057	143,936
Exchange realignment	(1,144)	(1,082)
Interest charge	4,128	—
Fair value gain	—	(21,047)
At 30 June 2013	63,041	121,807
Exchange realignment	(872)	(3,405)
Interest charge	4,889	—
Fair value loss	—	2,799
At 31 December 2013	67,058	121,201

17. CONVERTIBLE NOTES - continued

The fair value of the conversion option derivative component of the Convertible Notes is estimated using a Binomial Option Pricing Model with the assumption of the movement of stock price of the Company and interest rates. The assumption adopted for the valuation of the conversion option derivative component of the Convertible Notes using Binomial Option Pricing Model as of 30 June 2013, 31 December 2013 and 30 June 2014 were as follows:

	30 June 2014	30 June 2013	31 December 2013
Risk-free interest rate (i)	**0.885%**	0.726%	1.065%
Expected volatility (ii)	**51.01%**	51.01%	50.19%

Notes:

(i) Risk-free interest rate was used by reference to Hong Kong Exchange Fund Note at the valuation date.

(ii) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price of the comparable companies.

The fair values were determined by the directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group.

18. SHARE CAPITAL

	Number of shares	**Amount USD**
Ordinary shares		
Authorised:		
At 1 January 2013, 30 June 2013, 31 December 2013 and 30 June 2014 at USD0.00001 each	5,000,000,000	50,000

	Number of shares	**Amount USD**	**Shown in the condensed consolidated financial statements as RMB'000**
Issued and fully paid:			
At 1 January 2013, 30 June 2013, 31 December 2013 and 30 June 2014 at USD0.00001 each	500,000,000	5,000	32

19. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within one year	**5,825**	1,574
In the second to fifth years inclusive	**2,372**	627
	8,197	2,201

Operating lease payments represent rentals payable by the Group for certain properties. Leases are negotiated and rentals are fixed for terms ranging from one to five years.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within one year	**400**	958
In the second to fifth years inclusive	**—**	—
	400	958

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2014 RMB'000	31 December 2013 RMB'000				
Financial assets Structured deposit (classified as financial asset in the statement of financial position)	**7,650**	6,500	Level 2	Discounted cash flow. Market price of underlying financial instruments, including listed shares and debentures.	N/A	N/A
Financial liabilities Conversion option derivative liability (classified as financial liability in the statement of financial position)	**362,070**	121,201	Level 3	The Binomial Option Pricing Model. The key inputs are risk free rate for the yields to maturity of respective Hong Kong Exchange Fund Note and volatility of the share price from the comparable companies.	Volatility (Note)	The higher the volatility, the higher the fair value.

Note: If the volatility to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the equity securities would increase/decrease by approximately RMB1,873,000 and RMB5,000 respectively.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Details of reconciliation from the beginning balance to the ending balance of level 3 fair value measurement of financial liability regarding conversion option of Convertible Notes are set out in note 17. There were no transfers between the different levels of the fair value hierarchy for the period.

21. CAPITAL COMMITMENTS

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment - contracted for but not provided in the condensed consolidated financial statements	**7,736**	14,162

22. RELATED PARTY DISCLOSURES

(a) Transactions with related party

The Group had the following significant related party transaction during the period with Medtronic:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Royalty expense	**1,811**	718
Service expense	**20,689**	4,688

(b) Amount due from (to) a shareholder

The amount was due from a shareholder and it is non-trading in nature, unsecured, interest-free and was repayable on demand.

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Medtronic	**8,518**	—

The amount was due to a shareholder and it is non-trading in nature, unsecured, interest-free and was repayable on demand.

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Medtronic	**7,348**	12,164

22. **RELATED PARTY DISCLOSURES** - continued

(c) **Compensation of key management personnel**

The remuneration of key management personnel during the period was as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**2,100**	1,351
Post employee benefits	**78**	74
	2,178	1,425

The remuneration of key management personnel is determined by reference to the performance of individuals and market trends.

23. **DISPOSAL OF AN ASSOCIATE**

In the current interim period, on 23 May 2014, the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which the Group disposed of 40% equity interest in Broncus Holding Corporation, an associated company of the Group, for a pending receivable consideration of USD4,000,000 (equivalent to approximately RMB24,624,000) (the "Disposal"). Upon the completion of the Disposal on 23 May 2014, the Group lost significant influence over Broncus Holding Corporation and Broncus Medical Inc. ("Broncus Medical"), a wholly-owned subsidiary of Broncus. This transaction has resulted in the Group recognizing a gain of approximately RMB24,570,000 in profit or loss, calculated as follows:

	RMB'000
Cash proceeds	24,624
Less: carrying amount of 40% investment on the date of loss of significant influence over Broncus	—
reclassification of cumulative translation reserve upon disposal of Broncus to profit or loss	(54)
Gain recognised in profit or loss	24,570

24. CONTINGENT LIABILITIES

The Group is currently involved in a litigation in India. In 2008, a company (the "Plaintiff") filed a suit with The High Court of New Delhi (the "Court") at New Delhi, India, against (i) Lifetech Scientific (Shenzhen) Co., Ltd. ("Lifetech Shenzhen"), (ii) Lifetech Shenzhen's importer in India; and (iii) such importer's local Indian distributor (individually and collectively referred to as "Defendants"). The Plaintiff pleaded to the Court to issue a permanent injunction restraining the Defendants from importing and selling Heart occluders in India which were accused of infringing the Plaintiff's patent. The Plaintiff also pleaded to order the national importer in India and its local Indian distributor to surrender all the rendition of accounts of profits or a decree of damages of Indian Rupee ("INR") 2,100,000 (equivalent to approximately RMB218,000). As at 30 June 2014 and up to the date of the issue of these condensed consolidated financial statements, the cross-examination of all the AGA's witnesses is completed. The cross-examination of the last witness, our IT administrator, has concluded on 25 August 2014. The Court will direct the further arguments on 3 September 2014.

After seeking legal advice, the directors of the Company are of the opinion that it is not probable that the Court will grant a permanent injunction to the Plaintiff and it is also not probable for the Court to award damages to the Plaintiff or direct delivery of infringing devices. Accordingly, the directors consider that no provision is necessary for any potential liability in the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. We have three main product lines, including congenital and structural heart diseases business ("congenital heart diseases business"), peripheral vascular diseases business and surgical vascular repair business, providing clinically effective and commercially attractive product offerings.

Today, our products are being used in 71 countries across Asia, Africa, North America, South America and Europe, mainly through our network of distributors consisting of nearly 172 distributors worldwide.

China is still our largest market, and sales generated from Chinese market accounted for approximately 73.7% of our total revenue for the six months ended 30 June 2014(corresponding period in 2013: approximately 73.7%). Our domestic sales experienced a steady growth of approximately 24.9% for the six months ended 30 June 2014 as compared to the corresponding period in 2013, indicating stronger brand and higher market share in China. Our international market realised approximately a 24.8% growth in sales revenue for the six months ended 30 June 2014 as compared to the corresponding period in 2013. During the six months ended 30 June 2014, we strengthened our sales force and penetrated new hospitals which led to an increase in our market share.

Our products

We successfully launched Ankura Thoracic Aortic Aneurysm ("TAA") stent graft systems and Ankura Abdominal Aortic Aneurysm ("AAA") stent graft systems in Greece and Turkey, expanded our congenital heart diseases business in Korea, Lithuania, Slovakia, Poland, Sweden, Bulgaria, and Cambodia during the period ended 30 June 2014.

Our LAmbre™ LAA occluder has successfully been implanted in more than 100 patients worldwide as at 30 June 2014. We held a medical seminar with a doctor who is one of our main clinical cooperators and announced this information in Hong Kong. Moreover, our LAmbre™ LAA occluder was granted by China Food and Drug Administration of the PRC ("CFDA") to go to "China Green Channel" which may speed up the approval of this product in China.

Strategic cooperation with Medtronic

On 24 January 2014, the Company and Medtronic entered into a second supplemental services agreement pursuant to which Medtronic will provide consultative services to the Company with a consideration of USD3,000,000. It expands both the scope and nature of the consulting services, know-how and expertise that Medtronic will provide to the Company through our strategic alliance. For further details, please refer to the announcement of the Company dated 27 January 2014 and the circular of the Company dated 18 March 2014. Medtronic has been providing assistance in our engineering and quality efforts in the production of heart valves from 2013 and we prepare to re-launch the heart valve product at the end of 2014.

Strategic cooperation with Medtronic - continued

On 13 June 2014, the Company and Medtronic entered into a second supplemental distribution agreement ("Second Supplemental Distribution Agreement") which continues our partnership and expands both the scope and nature of the distribution capabilities. Pursuant to the agreement, the Company appoints Medtronic as (i) the exclusive distributor for all current and future occluder products developed by, manufactured by, licensed to, owned by or otherwise available to the Group and (ii) a non-exclusive distributor for all current and future accessory products developed by, manufactured by, licensed to, owned by or otherwise available to the Group in selected countries in Europe and the Middle East. This agreement will allow both companies to speed up the progress of growing the Company's global brand and revenue. The expanded nature of our partnership will lead to demonstrable financial benefits, as well as improved clinical capabilities, additional training and education opportunities, and significantly increased brand awareness. Medtronic's broad distribution channel and marketing capabilities in the territory will enable the Company to quickly increase its revenues of the products described above. The Company will also enjoy additional recognition and success as a result of further alignment of our brands outside China. For further details, please refer to announcement of the Company dated 15 June 2014, the clarification announcement of the Company dated 12 August 2014 and the circular of the Company dated 21 August 2014.

To expand this alliance to include pacemaker and cardiac lead products to be manufactured and commercialized in China for the China market, the Company, by itself or through its affiliates, entered into several agreements with Medtronic or its affiliates on 25 July 2014 (the "New Transaction Agreements"). Under the New Transaction Agreements, Medtronic and its affiliates will provide the Company or its affiliates with (i) licenses to know-how and other intellectual property; (ii) certain consulting services; (iii) certain equipment and components; (iv) manufacturing capabilities and (v) marketing, promotion and distribution in connection with certain implantable cardiac rhythm management products to be developed and manufactured by the Company at the Company's facility in Shenzhen, the PRC. For further details, please refer to the announcement of the Company dated 28 July 2014 and the supplemental announcement of the Company dated 7 August 2014.

In collaborating with leading clinicians, researchers and scientists, Medtronic offers the broadest range of innovative medical technology for the interventional and surgical treatment of cardiovascular disease and cardiac arrhythmias. The Company is continuing its commitment to offering products and services that deliver clinical and economic value to healthcare consumers and providers worldwide.

Disposal of an associate

In order to focus on our main business, the Group disposed all the interests in Broncus and its subsidiary Broncus Medical (collectively referred to as "Broncus Group"). On 23 May 2014, the Company, other noteholders and the Broncus Group entered into a note restructuring agreement pursuant to which the Company converted the convertible note with consideration of USD2,800,000 into equity shares. And on the same date, the Group and an independent third party entered into a share purchase agreement pursuant to which the Company sold all the equity shares in Broncus with a cash proceed of USD4,000,000. As at 30 June 2014, the Company has no interest in Broncus.

FINANCIAL REVIEW

Overview

The Company has witnessed steady growth for the six months ended 30 June 2014. With the potent strategic alliance with Medtronic, we are confident that our business will expand to more countries and have a bright future.

Revenue

Our revenue was approximately RMB135.7 million for the six months ended 30 June 2014, with an increase of approximately RMB27.0 million or approximately 24.8% compared to the six months ended 30 June 2013. The increase was primarily attributable to an increase of approximately RMB19.6 million in revenue from the peripheral vascular diseases business.

Revenue from congenital heart diseases business

The turnover contributed by the congenital heart diseases business for the six months ended 30 June 2014 was approximately RMB61.2 million (corresponding period in 2013: approximately RMB53.5 million), realised a growth of 14.4%. The growth was mainly attributable to the steady increase in the sales of Cera Occluders in China and CeraFlex Occluders overseas.

Revenue from peripheral vascular diseases business

The turnover contributed by the peripheral vascular diseases business for the six months ended 30 June 2014 was approximately RMB74.5 million (corresponding period in 2013: approximately RMB55.0 million), representing rapid growth of approximately 35.5%. The growth was mainly attributable to more hospitals penetration and increasing market share.

Revenue from surgical vascular repair business

The products we offered in the surgical vascular repair business are mainly heart valves. Revenue generated from the sales of surgical vascular repair business was only RMB6,000 for the six months ended 30 June 2014 (corresponding period in 2013: approximately RMB201,000). The decrease was mainly due to Medtronic helping with the improvement of quality, technical and process control system in Beijing for the heart valve product since 2013, causing a suspension of product sales during this period.

Gross profit and gross profit margin

As a result of the increased sales and diversity of our products, gross profit of the Group rised by approximately 24.1% from approximately RMB90.1 million for the six months ended 30 June 2013 to approximately RMB111.8 million for the six months ended 30 June 2014.

Selling and distribution expenses

Selling and distribution expenses increased by 31.9% from approximately RMB24.8 million for the six months ended 30 June 2013 to approximately RMB32.7 million for the six months ended 30 June 2014. The increase was primarily due to (i) an increase of marketing expenses as a result of increased attendance at conference and tradeshows for our products promotion; and (ii) incremental sales royalty payable to Medtronic due to sales increase; and (iii) an increase of logistic expenses because of the increase of sales dealt with by our European customer service center.

Administrative expenses

Administrative expenses increased by 65.1% from approximately RMB24.1 million for the six months ended 30 June 2013 to approximately RMB39.8 million for the six months ended 30 June 2014. The increase was primarily attributable to the service fee of approximately RMB20.7 million payable to Medtronic pursuant to the service agreement between the two companies entered into in 2012 and the second supplemental service agreement entered into in 2014 (corresponding period in 2013: approximately RMB4.7 million). The Company will benefit from the extensive international capabilities and cutting edge industry expertise of Medtronic. Excluding the service fee paid and payable to Medtronic, the administrative expenses for the six months ended 30 June 2014 were almost identical to the corresponding period in 2013.

Research and development expenses

Research and development expenses increased by 21.3% from approximately RMB13.6 million for the six months ended 30 June 2013 to approximately RMB16.5 million for the six months ended 30 June 2014. The increase was primarily due to (i) higher expenditure in developing projects; and (ii) an increase of salary, bonus and related expenses for additional staffs in research and development department.

Operating profit

There was a slight increase of approximately 3.3% on the operating profit, from approximately RMB24.6 million for the six months ended 30 June 2013 to approximately RMB25.4 million for the six months ended 30 June 2014. The small growth was primarily due to the payment of service fee of approximately RMB20.7 million to Mendronic pursuant to the service agreement between the two companies entered into in 2012 and the second supplemental service agreement entered into in 2014 (corresponding period in 2013: approximately RMB4.7 million).

Fair value loss on convertible notes

During the six months ended 30 June 2014, the fair value loss on convertible notes issued to Medtronic was approximately RMB239.7 million (corresponding period in 2013: approximately RMB64.0 million).

Finance income and finance costs

Finance income increased by 58.3% from approximately RMB1.2 million for the six months ended 30 June 2013 to approximately RMB1.9 million for the six months ended 30 June 2014.

Finance costs are approximately RMB5.5 million for the six months ended 30 June 2014, representing effective interest expenses arising from the convertible notes issued to Medtronic (corresponding period in 2013: approximately RMB4.3 million).

Gain on disposal of an associate

The Company recorded approximately RMB24.6 million profits due to disposal of 40% equity interests in the Broncus Group.

Net loss

Net loss attributable to owners of the Company for the six months ended 30 June 2014 was approximately RMB199.2 million (corresponding period in 2013: approximately RMB56.0 million). The decrease of net profit was mainly attributable to (i) the continuous record of the fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013; and (ii) the increase in administration expenses. Based on the fact that fair value loss on convertible notes is a non-operating and non-cash flow item, the Board is of the view that the Group's operating and financial positions are healthy and the Board remains positive on the prospects of the Group.

FUTURE PROSPECTS

The Group will continue to rely on its two core businesses, namely congenital heart diseases business and peripheral vascular diseases business, for growth potential in the second half year of 2014. The Group will also actively expand its product offering and strengthen its established market position.

We will continue to enhance our sales force and network, penetrate into a higher number of new hospitals in Europe, Asia and Latin America. Also we will keep our focus on broadening our product portfolio as well as designing innovative products to help capitalize on our growing sales network and infrastructure.

In the meantime, we expect additional sales from the distribution of our products by Medtronic according to the Second Supplement Distribution Agreement and we are confident that our alliance will bring generous financial benefit.

We will continue to evaluate and explore acquisitions, partnerships, alliances and licensing opportunities in the second half year of 2014, to enhance our competitiveness and market position in current key markets as well as selective new markets.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2014, the Group mainly financed its operations with its own working capital, proceeds on issue of convertible notes and equity funding.

As at 30 June 2014, the Group had net current assets of approximately RMB322.5 million (31 December 2013: approximately RMB287.4 million), including cash and bank balances of approximately RMB222.9 million (31 December 2013: approximately RMB225.5 million).

GEARING RATIO

As at 30 June 2014, the gearing ratio (calculated as a ratio of borrowings consisting of convertible notes to total equity) of the Group is approximately 198.7%. (31 December 2013: approximately 28.4%).

CAPITAL STRUCTURE

Total equity attributable to equity holders of the Company amounted to approximately RMB32.0 million as at 30 June 2014 compared to approximately RMB231.5 million as at 31 December 2013. There were no short-term bank borrowings (corresponding period in 2013: RMB35.0 million), and no interest of bank borrowings for the six months ended 30 June 2014 (corresponding period in 2013: approximately RMB159,000).

UPDATE ON PENDING LITIGATION IN INDIA AND IMPACT ON OUR CONTINGENT LIABILITIES

The Group is currently involved in a lawsuit issue in India. AGA Medical Corporation ("AGA") filed a suit with the High Court of New Delhi (the "Court") against our companies, alleging that our occluders sold in India infringed its patent. For details, please refer to the section headed "Risk Factors-Risk Related to Intellectual Property Rights" in the IPO prospectus of the Company (the "Prospectus"). As at 30 June 2014 and up to the date of the issue of this announcement, the cross-examination of all AGA witnesses is completed. The cross-examination of the last witness, our IT administrator, has concluded on 25 August 2014. The Court will direct the further arguments on 3 September 2014. After seeking legal advice, the Board is of the opinion that it is not probable that the Court will grant a permanent injunction to the plaintiff and it is also not probable for the Court to award damages to the plaintiff or direct delivery of infringing devices. Accordingly, the Board considers that no provision is necessary for any potential liability in the consolidated financial statements.

Save as disclosed in this announcement, the Group did not have any other contingent liabilities as of 30 June 2014.

FOREIGN EXCHANGE RISK

During the period, the Group's operations are primarily based in the PRC and India. The revenue derived from India accounted for approximately 7.8% (corresponding period in 2013: approximately 8.7%) of the total revenue of the Group. The financial statements of Lifetech Scientific India Private Limited, our sole subsidiary in India are presented in Renminbi, and in the Group a portion of the revenue and expenses are denominated in United States Dollars and Euro. Indian Rupees was unstable during the six months ended 30 June 2014, and the Group's operational results and financial condition may be affected by changes in the exchange rates of Renminbi against India Rupees. To minimize exposure to foreign exchange risk, most of the bank deposits of the Group are being kept in Renminbi and Hong Kong Dollars. The Directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the period.

CHARGES ON GROUP ASSETS

As at 30 June 2014, the Group did not have any charges on its assets.

LOAN TRANSACTION

On 28 April 2013, Lifetech Shenzhen, being one of our key operating subsidiaries in the PRC and Shanghai Pudong Development Bank Shenzhen Branch (the "Lending Agent") entered into the entrusted loan agency agreement, pursuant to which the Lending Agent agreed to act as the lending agent under the entrusted loan agreement (the "Loan Agreement") in return for an agency fee of 0.03% of the loan amount of RMB32.0 million (the "Loan"), subject to and upon the terms and conditions in the announcement of the Company dated on 12 July 2013. On the same date, Lifetech Shenzhen entered into the Loan Agreement with an independent third party (the "Borrower") and the Lending Agent, pursuant to which Lifetech Shenzhen agreed to entrust the Loan amount of RMB32.0 million (equivalent to approximately HK$40.0 million) to the Lending Agent, with interest rate of 7% per annum on the Loan amount, for on-lending to the Borrower for a term of one year subject to the terms and conditions under the Loan Agreement. As at 30 June 2014, the Group had received the loan repayment and all the interest receivables.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group had 539 (corresponding period in 2013: 491) full time employees (including directors). Total staff costs, including Directors' emoluments, amounted to approximately RMB31.9 million for six months ended 30 June 2014 (corresponding period in 2013: approximately RMB24.2 million). In respect of retirement benefit scheme, the defined contribution plan is adopted by the Group. The amount of contributions to retirement benefits scheme for the six months ended 30 June 2014 is approximately RMB2.3 million (corresponding period in 2013: approximately RMB1.9 million). Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The benefits provided by the Group to its employees include discretionary bonus, basic medical insurance, work injury insurance, unemployment insurance and share options to the employees. Discretionary bonus is linked to the performance of the Group as well as individual performance. The Group also arranges its staff for training to enhance their skills and knowledge.

USE OF PROCEEDS GENERATED FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing in November 2011, after deduction of related expenses, amounted to approximately HK$156.6 million. During the six months ended 30 June 2014, the net proceeds from issuance of new shares of the Company had been applied as follows:

		Planned use of proceeds as stated in the Prospectus from Listing to 30 June 2014 (HK$ million)	Actual use of proceeds from Listing to 30 June 2014 (HK$ million)
1	Enhance market position of core cardiovascular and peripheral vascular devices in key emerging markets	8.0	7.6
2	Continue to develop and commercialize pipeline products	46.0	46.0
3	Expansion into key international markets with current and pipeline products	8.0	7.6
4	Expansion of our manufacturing facilities	88.0	76.0 *(Note 1)*
5	Expansion into complementary product offers and pursue opportunistic acquisitions, partnerships, alliances and licensing opportunities	10.0 *(Note 2)*	9.5

Note 1 On 19 February 2013, Lifetech Shenzhen made a successful bid for the land use right in respect of the Land located in Nanshan District, Shenzhen, the PRC at a price of RMB37,020,000 (equivalent to approximately HK$45,697,000) through an open tender organized by the Shenzhen Land Transaction Centre. The deed tax arising from the land acquisition amounts to approximately RMB1.1 million (equivalent to approximately HK$1.4 million). Other expense arisen is approximately HK$28.9 million.

Note 2 This represents the amount which can be allocated to any of the period from November 2011 to 31 December 2014.

The net proceeds applied, as at 30 June 2014 are less than expected primarily due to delayed acquisition of land use right in Nanshan District.

The unused proceeds have been placed in interest bearing deposit accounts maintained with banks in Hong Kong and mainland China.

USE OF PROCEEDS FROM THE SUBSCRIPTION OF THE FIRST TRANCHE CONVERTIBLE BONDS BY MEDTRONIC

Reference is made to the announcements of the Company dated 15 October 2012, 6 January 2013, and 30 January 2013 and the Circular in relation to the subscription of the First Tranche Convertible Notes by Medtronic. The issue and subscription of the First Tranche Convertible Notes took place on 30 January 2013 (i.e. the First Tranche Completion Date) and the net proceeds from the issue subscription was approximately HK$146,600,000.

As at 30 June 2014, the actual use of net proceeds from the subscription of the First Tranche Convertible Notes was approximately HK$97,400,000, which have been applied to their intended uses for the period from the First Tranche Completion Date until 30 June 2014. There was no material deviation from the planned use of net proceeds during the period from 31 January 2014 to 30 June 2014. The Company also disclosed that as at 30 January 2014 (being the end of one year from the First Tranche Completion Date), approximately HK$62,300,000 of the net proceeds have been used in the manner as described in the clarification announcement of the Company dated 31 July 2014.

The Directors will closely monitor the application of the proceeds and keep the Shareholders informed of the latest developments.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 22 October 2011, and the Company has not granted or issued any option since the adoption date of the said scheme and up to 30 June 2014.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2014.

UPDATE ON BIOGRAPHY OF DIRECTOR

Mr. Liang Hsien Tse, one of our independent non-executive directors, was appointed on 6 June 2014 for a one-year term as an independent non-executive director of China Animal Healthcare Limited, a company listed on the Main Board of the HKSE (Stock Code: 940).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 June 2014, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

In order to restrict competition activities with the Company, Mr. Xie Yuehui, Mr. Wu Jianhui, Xianjian Advanced Technology Limited and GE Asia Pacific Investments Ltd. (collectively, the "Covenantors") have entered into a deed of non-competition in favour of the Company dated 22 October 2011 (the "Non-Competition Deed").

The undertakings and covenants stipulated under the Non-Competition Deed cover any business which involves the business of the Group as described in the Prospectus and any other business from time to time conducted by any member of the Group in Hong Kong, the PRC and such other parts of the world where by any of the Group carries on business from time to time.

In determining whether the Covenantors had fully complied with the non-competition undertakings during the six months ended 30 June 2014 for the semi-annual assessment, the Company noted that (a) the Covenantors declared that they had fully complied with the non-competition undertakings in the Deed for the six months ended 30 June 2014, (b) no new competing business was reported by the Covenantors during the six months ended 30 June 2014, and (c) there was no particular situation rendering the full compliance of the Non-competition Undertakings being questionable.

In view of the above, the Company confirmed that all of the non-competition undertakings in the Deed have been complied with by the Covenantors for the six months ended 30 June 2014, and the Directors were not aware of any business or interest of the Directors, the management shareholders of the Company and their respective associates (as defined under the Listing Rules) and the Covenantors that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group during the same reporting period.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules regarding the directors' securities transactions in securities of the Company. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct from the date of listing of the Company's shares on the HKSE up to 30 June 2014.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance to safeguard the interest of its shareholders and enhance its corporate value. During the six months ended 30 June 2014, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 22 October 2011 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and with updated written terms of reference adopted on 8 November 2013 in compliance with Rules 3.21 to 3.23 of Main Board Listing Rules. As at the date of this announcement, the Audit Committee consists of three members, the majority of whom are independent non-executive directors, namely Mr. Liang Hsien Tse Joseph, a director with the appropriate professional qualifications who serves as the chairman of the audit committee, Mr. Wu Jianhui and Mr. Zhou Gengshen.

The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

The Group's unaudited results for the six months ended 30 June 2014 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the Listing Rules and the applicable legal requirements, and that adequate disclosure has been made.

On behalf of the Board
LifeTech Scientific Corporation

XIE Yuehui
Chairman and Executive Director

Hong Kong, 29 August 2014

As at the date of announcement, the Board comprises Mr. XIE Yuehui and Mr. ZHAO Yiwei Michael being executive directors of the Company; Mr. WU Jianhui, Mr. MARTHA Geoffrey Straub, Dr. LIDDICOAT John Randall and Mr. JIANG Feng being non-executive directors of the Company; and Mr. LIANG Hsien Tse Joseph, Mr. ZHOU Luming and Mr. ZHOU Gengshen being independent non-executive directors of the Company.