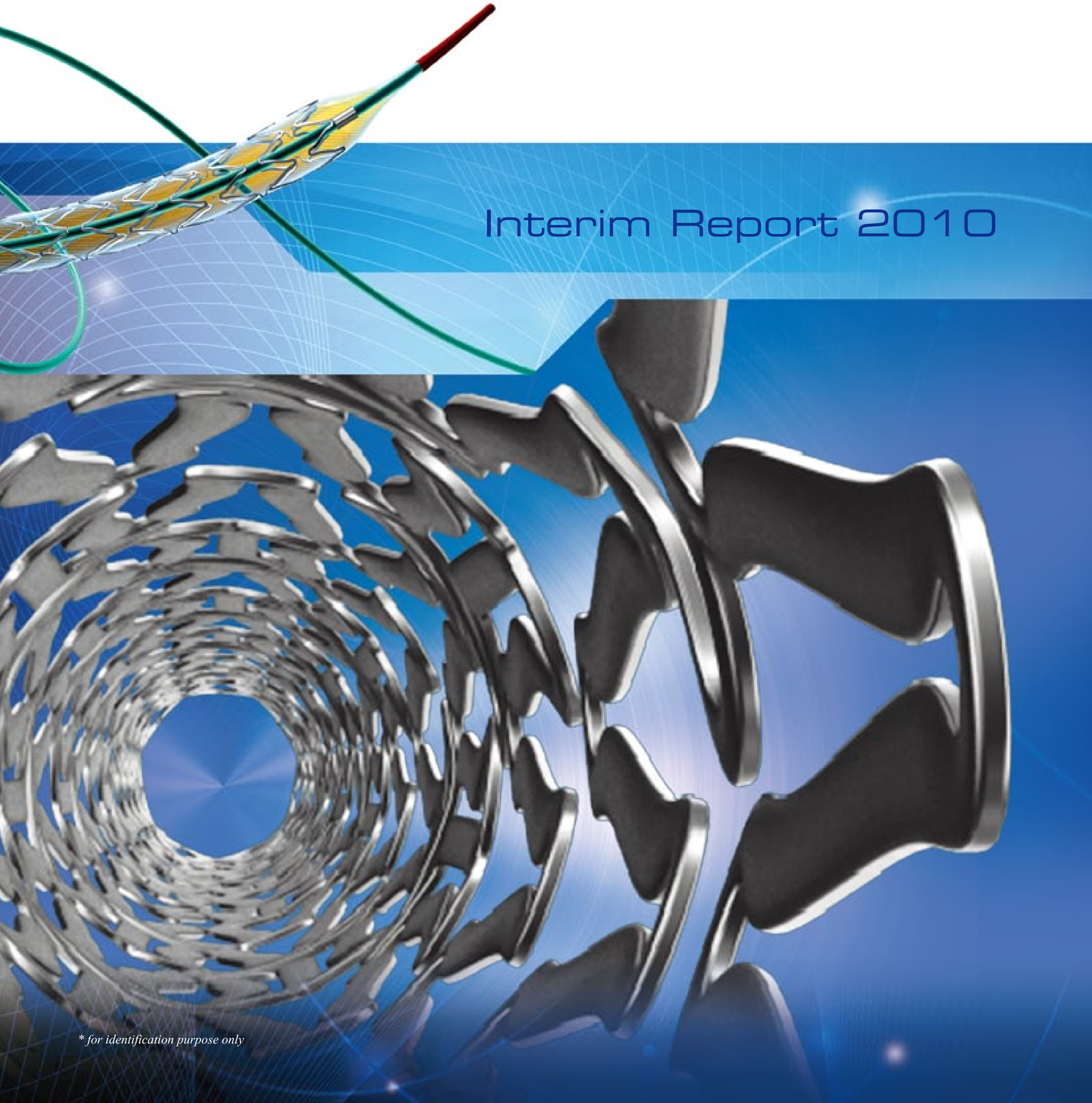
# MicroPort Scientific Corporation

# 微創醫療科學有限公司*

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

(Stock Code: 853)



# Interim Report 2010

* *for identification purpose only*

Designed and Printed: RR DONNELLEY ROMAN FINANCIAL

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors

Dr. Zhaohua Chang
Ms. Yan Zhang
Mr. Hongbin Sun
Mr. Qiyi Luo

### Non-Executive Directors

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Xiaolong Liu

### Independent Non-Executive Directors

Mr. Zezhao Hua
Mr. Jonathan H. Chou
Dr. Guoen Liu

## JOINT COMPANY SECRETARIES

Ms. Yee Har Susan Lo, *FCS (PE), FCIS*
Ms. Man Yee Chu, *ACS, ACIS*

## AUTHORIZED REPRESENTATIVES

Dr. Zhaohua Chang
Ms. Yee Har Susan Lo

## AUDIT COMMITTEE

Mr. Jonathan H. Chou *(Chairman of the Audit Committee)*
Mr. Norihiro Ashida
Mr. Zezhao Hua

## REMUNERATION COMMITTEE

Dr. Zhaohua Chang *(Chairman of the Remuneration Committee)*
Mr. Jonathan H. Chou
Dr. Guoen Liu

## NOMINATION COMMITTEE

Mr. Xiaolong Liu *(Chairman of the Nomination Committee)*
Dr. Guoen Liu
Mr. Zezhao Hua

## REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1–1104
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

501 Newton Road
Zhangjiang Hi-Tech Park
Shanghai 201203
People's Republic of China

## PLACE OF BUSINESS IN HONG KONG

Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

## AUDITORS

KPMG

## COMPLIANCE ADVISOR

TC Capital Asia Limited

## LEGAL ADVISER

Ropes & Gray

## SHARE REGISTRAR IN HONG KONG

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

## COMPANY WEBSITE

www.microport.com.cn

## PRINCIPAL BANKERS

China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
China CITIC Bank Shanghai Zhangjiang Sub-Branch
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

# Financial Highlights

The shares of MicroPort Scientific Corporation (the "Company") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 24, 2010.

The board (the "Board") of directors (the "Directors") of the Company is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2010 together with the comparative amounts for the corresponding period in 2009. Unless the context requires otherwise, capitalized terms used in this interim report shall have the same meanings set out in the prospectus (the "Prospectus") of the Company dated September 13, 2010.

| | **For the six month ended June 30,** | | |
|---|---|---|---|
| | **2010** | **2009** | **Change %** |
| | **in RMB million** | **in RMB million** | |
| | **(audited)** | **(unaudited)** | |
| Revenue | **375.7** | 292.0 | 28.7 |
| Gross profit | **326.2** | 253.7 | 28.6 |
| Profit for the period | **149.7** | 107.6 | 39.1 |
| Earnings per share* – Basic (RMB) | **0.13** | 0.10 | 30.0 |
| – Diluted (RMB) | **0.13** | 0.09 | 44.4 |

* The calculation of the earnings per share information has taken into account the 10-for-1 share split of the Company's ordinary shares took place on the listing of the Company's shares on September 24, 2010.

# Management Discussion and Analysis

## BUSINESS OVERVIEW

We are a leading developer, manufacturer and marketer of medical devices in China in terms of the number of stents implanted, focusing primarily on minimally invasive interventional products for the treatment of vascular diseases and disorders. We currently offer 18 products including cardiovascular and other vascular devices, as well as an electrophysiology and a diabetes device. Our principal product is Firebird 2, our second generation drug-eluting cobalt-chromium stent. Both Firebird 2 and its predecessor, Firebird, have been the leading drug-eluting stents in China in terms of the number of stents implanted in 2007, 2008 and 2009. We are also developing a range of electrophysiology and orthopedic devices and other medical devices.

We use a combination of our own sales and marketing teams and a network of independent distributors to market and sell our products in China. Our highly trained sales and marketing teams market our medical devices directly to hospitals through regular visits to interventional cardiologists, radiologists, vascular surgeons and other medical professionals, sponsorship of conferences, seminars and physician education programs, and other activities including regular training for newer products. Our independent distributors, together with our own sales and marketing teams, provide us with nationwide coverage of the China market. In addition, we export our products outside of China through our network of overseas distributors to more than 20 countries in the Asia Pacific region (excluding China), South America and Europe. International sales accounted for 7.5% of our revenue for the six months ended June 30, 2010.

For the six months ended June 30, 2009 and 2010, we had revenue of RMB292.0 million and RMB375.7 million, respectively, representing an increase of 28.7%.

There are a number of factors which affect our financial condition and results of operation, including (i) government price controls, (ii) industry competition, (iii) growth of the medical device market in China, in particular for vascular devices, (iv) sales, marketing and distribution, (v) our ability to introduce new products and technologies and (vi) taxes and incentives.

The following discussion is based on, and should be read in conjunction with, the financial information and the notes thereto included elsewhere in this interim report.

## RESULTS OF OPERATION

### Revenue

Revenue increased by 28.7% from RMB292.0 million in the six months ended June 30, 2009 to RMB375.7 million in the six months ended June 30, 2010. The increase was primarily due to an increase in our revenue from drug eluting stents. We did not generate any revenue from our orthopedic device business during the six months ended June 30, 2009 and 2010 as that business has been, and currently remains, in research and development stage.

# Management Discussion and Analysis

***Revenue from vascular device business***

Revenue from sales of drug eluting stents increased by 26.8% from RMB258.3 million in the six months ended June 30, 2009 to RMB327.4 million in the six months ended June 30, 2010. The increase was primarily due to an increase in the sales volume of Firebird 2. We believe that the increase in sales volume of Firebird 2 primarily resulted from (i) the overall growth of the market for drug-eluting stents in China, and (ii) the increasing recognition of the quality and performance of Firebird 2 in the medical community and among patients.

Revenue from sales of TAA/AAA stent grafts increased by 58.1% from RMB14.8 million in the six months ended June 30, 2009 to RMB23.4 million in the six months ended June 30, 2010. The increase was primarily due to the increases in sales volume of our TAA stent graft, Hercules T, and AAA stent graft, Hercules B. The increases in sales volume of Hercules T and Hercules B primarily resulted from (i) the overall growth of the market for TAA/AAA stent grafts, and (ii) the commercial launch of Hercules B in September 2009.

Revenue from sales of bare-metal stents decreased by 11.0% from RMB7.3 million in the six months ended June 30, 2009 to RMB6.5 million in the six months ended June 30, 2010. The decrease was primarily due to a decrease in the selling price of our primary bare-metal stent, Mustang, in the international markets.

Revenue from sales of other vascular device products increased by 38.9% from RMB10.8 million in the six months ended June 30, 2009 to RMB15.0 million in the six months ended June 30, 2010. The increase was primarily due to increases in the sales volume of our intracranial stent, Apollo, and our operational stent graft, Cronus. The increases in sales volume of Apollo and Cronus was primarily resulted from growth in the market demand for such products.

***Revenue from diabetes device business***

Revenue generated from our diabetes device business increased significantly from RMB0.8 million in the six months ended June 30, 2009 to RMB3.3 million in the six months ended June 30, 2010. The increase was primarily due to an increase in the sales volume of our insulin pump, La Fenice. The increase in sales volume of La Fenice primarily resulted from our further enhanced sales and marketing team and increased sales and marketing efforts in the six months ended June 30, 2010.

**Cost of sales**

Cost of sales increased by 28.6% from RMB38.4 million in the six months ended June 30, 2009 to RMB49.4 million in the six months ended June 30, 2010, primarily as a result of increased sales volume.

# Management Discussion and Analysis

**Gross profit**

As a result of the foregoing factors, gross profit increased by 28.6% from RMB253.7 million in the six months ended June 30, 2009 to RMB326.2 million in the six months ended June 30, 2010, and gross profit margin remained relatively stable in the six months ended June 30, 2009 and 2010.

**Other revenue**

Other revenue decreased by 71.4% from RMB7.7 million in the six months ended June 30, 2009 to RMB2.2 million in the six months ended June 30, 2010. The decrease was primarily due to a (i) RMB2.3 million decrease in interest income from bank deposits primarily as a result of a decrease in interest rates, and (ii) a RMB3.1 million decrease in government grant income.

**Other net income**

We had other net income of RMB1.2 million in the six months ended June 30, 2010, as compared to other net loss of RMB0.2 million in the six months ended June 30, 2009. This was primarily due to net foreign exchange gain of RMB1.2 million in the six months ended June 30, 2010, as compared to net foreign exchange loss of RMB0.2 million in the six months ended June 30, 2009.

**Research and development costs**

Research and development costs increased by 29.5% from RMB38.0 million in the six months ended June 30, 2009 to RMB49.2 million in the six months ended June 30, 2010. The increase was primarily due to (i) a RMB7.1 million increase in salaries, bonuses and related expenses for personnel engaged in research and development resulting from an increase in the number of our research and development personnel and an increase in salaries and (ii) a RMB4.3 million increase in purchases of supplies and materials used in connection with our increased research and development efforts.

**Sales and marketing costs**

Sales and marketing costs increased by 21.3% from RMB44.6 million in the six months ended June 30, 2009 to RMB54.1 million in the six months ended June 30, 2010. The increase was primarily due to (i) a RMB4.0 million increase in salaries, bonuses and related expenses for personnel engaged in sales and marketing resulting from an increase in the number of our sales and marketing personnel and an increase in salaries and (ii) a RMB5.5 million increase in travelling expenses as a result of increased attendance at conferences and seminars to promote our products.

# Management Discussion and Analysis

**Administrative expenses**

Administrative expenses increased by 20.5% from RMB21.5 million in the six months ended June 30, 2009 to RMB25.9 million in the six months ended June 30, 2010. The increase was primarily due to (i) a RMB1.2 million increase in salaries, bonuses and related expenses for administrative personnel and management resulting from an increase in the number of our administrative personnel and management and an increase in salaries and (ii) RMB1.2 million for the purchase of medical reference materials.

**Other operating costs**

Other operating costs increased significantly from RMB0.4 million in the six months ended June 30, 2009 to RMB11.4 million in the six months ended June 30, 2010. The increase was primarily due to the fact that a portion of listing expenses in connection with the listing of our shares on The Stock Exchange of Hong Kong Limited amounting to RMB10.0 million is charged to the consolidated income statement during the six months ended June 30, 2010.

**Finance costs**

Finance costs remained relatively stable in the six months ended June 30, 2009 and 2010.

**Income tax**

Income tax decreased by 24.3% from RMB38.2 million in the six months ended June 30, 2009 to RMB28.9 million in the six months ended June 30, 2010. The decrease was primarily due to a decrease in withholding tax on retained earnings of our principal operating subsidiary, MicroPort Medical (Shanghai) Co., Ltd. Our effective tax rate decreased from 26.2% in the six months ended June 30, 2009 to 16.2% in the six months ended June 30, 2010.

**Profit for the period**

As a result of the foregoing factors, profit for the period increased by 39.1% from RMB107.6 million in the six months ended June 30, 2009 to RMB149.7 million in the six months ended June 30, 2010, and net profit margin increased from 36.8% in the six months ended June 30, 2009 to 39.8% in the six months ended June 30, 2010.

# Management Discussion and Analysis

## LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2010, we had RMB68.2 million (June 30, 2009: RMB90.2 million) in cash and cash equivalents. Our cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in China. The Board's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

### Operating activities

Net cash generated from operating activities was RMB86.1 million in the six months ended June 30, 2010 (six months ended June 30, 2009: RM73.5 million), which was primarily attributable to (i) profit before taxation of RMB178.6 million and (ii) an increase in trade and other payables of RMB22.6 million, partially offset by (i) an increase in trade and other receivables of RMB90.6 million, and (ii) payment of PRC income tax of RMB27.8 million.

### Investing activities

Net cash used in investing activities was RMB56.3 million in the six months ended June 30, 2010 (six months ended June 30, 2009: RMB58.8 million), which was primarily attributable to (i) net placement of deposits with banks with original maturities over three months of RMB9.0 million, and (ii) payment for the purchase of fixed assets of RMB51.6 million in connection with the construction of a new office complex for our headquarters and principal manufacturing facilities and our purchase of a building and machinery.

### Financing activities

Net cash used in financing activities was RMB51.6 million in the six months ended June 30, 2010 (six months ended June 30, 2009: RMB31.4 million), which was primarily attributable to dividends paid of RMB106.7 million, partially offset by net proceeds from new loans of RMB50.0 million.

### Borrowings and gearing ratio

Total borrowings of the Group as at June 30, 2010 was RMB54.6 million (June 30, 2009: RMB4.6 million) and denominated in RMB and 91.5% of it bears a fixed interest rate of 4.779% per annum. The increase is mainly attributable to new short term loan of RMB100.0 million during the six months period ended June 30, 2010, of which RMB50.0 million has been repaid. As at June 30, 2010, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 0.10 (June 30, 2009: 0.01).

### Working capital

Our working capital as of June 30, 2010 was RMB439.0 million (December 31, 2009: RMB369.1 million).

### Foreign exchange exposure

The Group's sales were primarily denominated in RMB. Therefore the Group's exposure to foreign currency exchange risks is negligible and the Board does not expect future currency fluctuations to materially impact the Group's operations. During the period under review, the Group recorded exchange gain of RMB1.2 million (June 30, 2009: exchange loss of RMB0.2 million). The Group does not employ any financial instruments for hedging purposes.

### Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately RMB51.6 million, which was used in the acquisition of property, plant and equipment.

### Charge on assets

As at June 30, 2010, the Group had pledged its building held for own use with net book value of RMB29.7 million and deposits with banks of RMB0.7 million for the purpose of securing a loan with carrying value of RMB4.7 million.

### Contingent liabilities

As at June 30, 2010, the Group had no material contingent liabilities.

## HUMAN RESOURCES

As at June 30, 2010, the Group employed approximately 1,214 employees (June 30, 2009: 1,023 employees). The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees. A Share Option Scheme (as defined below) has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Company has adopted training schemes for its employees managed by its human resource department.

# Management Discussion and Analysis

## PROSPECTS

With the listing of the shares of the Company on the Stock Exchange on September 24, 2010 and the receipt of proceeds, net of listing expenses, of approximately HK$1,428.3 million from the Global Offering excluding the Over-allotment Option, the Company has the resources to improve our products and increase our productivity and to bring value to our shareholders. We currently intend to apply those proceeds in the following ways:

- approximately 50%, or HK$714.1 million, to expand our product offerings, including enhancing our research and development (including conducting clinical trials and obtaining both domestic and international regulatory approvals), with a particular focus on new product lines to diversify our business, as well as acquiring businesses or acquiring or licensing products and technologies that we believe could complement our existing capabilities; in this regard, we expect to invest approximately HK$100 million to finance the ongoing clinical trials of our third generation drug-eluting stent, Firehawk, and ongoing research of our fourth generation drug-eluting stent as well as several other cardiovascular and other vascular products. As at the date of this report, our Directors confirm that our Company has not entered into any agreement nor do we have any definite plans at present in relation to any potential acquisitions of businesses or potential acquisitions or licensing of products and technologies;

- approximately 25%, or HK$357.1 million, to expand our production facilities, including approximately HK$250.0 million for completion of a new office complex for our headquarters and principal manufacturing facilities which is expected to be completed in 2012 and have an estimated annual production capacity of approximately 700,000 to 1,000,000 units of stents and catheters, and purchase of production and testing equipment;

- approximately 20%, or HK$285.7 million, to expand our sales, marketing and distribution activities in China and worldwide in particular the Asia Pacific region (excluding China) and Europe, including expanding and enhancing our sales, marketing and distribution network by adding more staff and hiring more distributors and performing multi-center post-launch clinical studies on our principal products such as drug-eluting stents, enhancing our brand name and market position and increasing training and education of physicians regarding our products by establishing training and education centers in China and other activities such as promoting public awareness and early detection of chronic diseases and post-procedure patient care and services; and

- approximately 5%, or HK$71.4 million, to fund working capital and for other general corporate purposes.

On September 26, 2010, the Company announces that the Over-allotment Option has been fully exercised. The additional net proceeds to be received by the Company upon the exercise of the Over-allotment Option are estimated to be approximately HK$221.3 million. The additional net proceeds will be applied in the manner and the proportions stated above.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The Company was listed on the Stock Exchange on September 24, 2010. No disclosure of interests or short positions of any directors and/or chief executives of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) were made to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO as of June 30, 2010.

As extracted from the Prospectus of the Company, on September 24, 2010 upon the Company's Listing, the interests and short positions of the directors and/or chief executive of the Company in any shares, underlying shares and debentures of the Company (taking no account of the shares to be issued pursuant to options which may be granted under the Share Option Scheme (as defined below) or pursuant to the exercise of the Over-allotment Option (as defined in the Prospectus)) or any of its associated corporations (within the meaning of Part XV of the SFO) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### 1. Interests and short position in the shares (the "Shares") of the Company

| Name of Director/ Chief Executive | No. of Shares | Notes | Capacity | Nature of interest | Approximate percentage of interest in the Company immediately after the Global Offering (Note 3) |
|---|---|---|---|---|---|
| Dr. Zhaohua Chang | 217,110,000 | 1 | Deemed interest | Long position | 15.5% |
| Mr. Qiyi Luo | 10,919,550 | | Beneficial owner | Long position | 0.8% |
| Mr. Yimin Xu | 6,052,260 | 2 | Beneficial owner | Long position | 0.4% |
| Ms. Yan Zhang | 3,200,000 | 2 | Beneficial owner | Long position | 0.2% |

### 2. Interests and short position in the underlying Shares

| Name of Director/ Chief Executive | No. of underlying Shares | Notes | Capacity | Nature of interest | Approximate percentage of interest in the Company immediately after the Global Offering (Note 3) |
|---|---|---|---|---|---|
| Dr. Zhaohua Chang | 10,000,000 | 4 | Beneficial owner | Long position | 0.71% |
| Ms. Yan Zhang | 4,500,000 | 4 | Beneficial owner | Long position | 0.32% |
| Mr. Qiyi Luo | 2,780,450 | 4 | Beneficial owner | Long position | 0.20% |
| Mr. Hongbin Sun | 4,000,000 | 4 | Beneficial owner | Long position | 0.28% |
| Mr. Yufei Hu | 3,500,000 | 4 | Beneficial owner | Long position | 0.25% |
| Mr. Yimin Xu | 1,044,430 | 4 | Beneficial owner | Long position | 0.07% |

*Notes:*

(1) Dr. Zhaohua Chang, our founder and Director, and chairman of our Company, owns 49% equity interest in Shanghai We'Tron Capital Corp. which in turn owns 94.19% equity interest in We'Tron Capital. To the best knowledge of our Directors and save as disclosed above, the remaining equity interest of We'Tron Capital and Shanghai We'Tron Capital Corp. are owned by independent third parties to our Company, none of which holds 33% or more in Shanghai We'Tron Capital Corp. Dr. Zhaohua Chang is therefore deemed to be interested in the number of Shares held by We'Tron Capital.

(2) Some or all of the relevant Shares are held through special purpose vehicles.

(3) Assuming the Over-allotment Option is not exercised.

(4) For further details, please refer to the below section headed "Share Option Scheme".

Save as disclosed above, as at September 24, 2010 upon the Company's Listing, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The Company was listed on the Stock Exchange on September 24, 2010. No disclosure of interests or short positions in any shares or underlying shares of the Company were made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as of June 30, 2010.

As extracted from the Prospectus of the Company, on September 24, 2010 upon the Company's Listing, so far as is known to the directors and taking no account of the Shares to be issued pursuant to options which may be granted under the Share Option Scheme (as defined below) or pursuant to the exercise of the Over-allotment Option (as defined in the Prospectus), the following persons (other than the directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

### Interests and short position in the Shares

| Name of Substantial Shareholder | No. of Shares | Notes | Capacity | Nature of interest | Percentage of total number of Shares in issue (%) |
|---|---|---|---|---|---|
| Otsuka Pharmaceutical | 468,994,120 | 1 | Beneficial owner | Long position | 33.4 |
| We'Tron Capital | 217,110,000 | 2 | Beneficial owner | Long position | 15.5 |
| Shanghai Zhangjiang Holdings | 215,883,620 | 3 | Beneficial owner | Long position | 15.4 |
| Shanghai Zhangjiang Investment | 53,398,570 | 3 | Beneficial owner | Long position | 3.8 |
| Shanghai Zhangjiang Industry | 9,423,280 | 3 | Beneficial owner | Long position | 0.7 |
| Shanghai ZJ | 278,705,470 | 3 | Interest of controlled corporation | Long position | 19.8 |
| | 7,042,580 | | Beneficial owner | Long position | 0.5 |

*Notes*

(1) Otsuka Holdings holds the entire issued share capital of Otsuka Pharmaceutical and therefore, is deemed to be interested in the number of Shares held by Otsuka Pharmaceutical.

(2) Dr. Zhaohua Chang, our founder, Director and chairman, owns 49% equity interest in Shanghai We'Tron Capital Corp. which in turn owns 94.19% equity interest in We'Tron Capital. To the best knowledge of our Directors and save as disclosed above, the remaining equity interests of We'Tron Capital and Shanghai We'Tron Capital Corp. are owned by independent third parties to our Company, none of which holds 33% or more in Shanghai We'Tron Capital Corp. Dr. Zhaohua Chang is therefore deemed to be interested in the number of Shares held by We'Tron Capital.

(3) Each of Shanghai Zhangjiang Industry, Shanghai Zhangjiang Investment and Shanghai Zhangjiang Holdings is a wholly-owned subsidiary of Shanghai ZJ. Each of Shanghai ZJ Holdings Limited and Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited owns 50% of Shanghai ZJ. Shanghai (Z.J.) Holdings Limited and Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited are wholly-owned subsidiaries of Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd and Shanghai Zhangjiang Science and Technology Investment Co., respectively. Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd is in turn a wholly-owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd which is 53.58% owned by Shanghai Zhangjiang (Group) Co., Ltd. Shanghai Zhangjiang Science and Technology Investment Co. is a wholly owned subsidiary of Shanghai Zhangjiang (Group) Co., Ltd. Shanghai Zhangjiang (Group) Co., Ltd. is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Shanghai Pudong New Area People's Government. As such, each of ZJ Holdings Limited, Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited, Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd, Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd and Shanghai Zhangjiang (Group) Co., Ltd is deemed to be interested in the number of Shares held by Shanghai Zhangjiang Industry, Shanghai Zhangjiang Investment, Shanghai ZJ and Shanghai Zhangjiang Holdings. Shanghai ZJ is deemed to be interested in the number of Shares held by Shanghai Zhangjiang Industry, Shanghai Zhangjiang Investment and Shanghai Zhangjiang Holdings.

Save as disclosed above, and as at September 24, 2010 upon the Company's Listing, the directors of the Company were not aware of any person (who were not directors or chief executive of the Company) who had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Company was only listed on the Main Board of the Stock Exchange on September 24, 2010, during the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended June 30, 2010, there was no acquisition and disposal of subsidiaries and associated companies by the Company.

## SHARE OPTION SCHEME

On February 20, 2004, MP Cayman, the intermediate holding company of MP Shanghai prior to the Reorganization completed on December 31, 2006, adopted the 2004 Stock Option Plan (the "2004 Option Plan") pursuant to which MP Cayman may grant up to 10,261,030 share options to the employees, executives and outside consultants of MP Shanghai.

During 2004 and 2005, MP Cayman granted a total of 10,261,030 share options to the executives, employees and outside consultants. The grantees under the 2004 Option Plan became the shareholders of MP Cayman and later become the shareholders of the Company upon the completion of the Reorganization when the ordinary shares of MP Cayman were exchanged for the Company's ordinary shares on a one for one basis.

On January 10, 2007, the Company agreed to assume the obligation of all outstanding and unvested share options of MP Cayman under the 2004 Option Plan. The assumption of share options was considered as a modification to the 2004 Option Plan (the "2004 Modified Plan").

On August 26, 2006, the Company adopted the 2006 Share Incentive Plan (the "2006 Incentive Plan"), in which the board of directors authorized, at their discretion, the issuance of an aggregate of up to 6,009,157 share options to the executives, employees and outside consultants of MP Shanghai. The 2006 Incentive Plan is subject to adjustment for a share split, or any future share dividend or other similar change in the ordinary shares for the capital structure. Each option gives the holder the right to subscribe for one ordinary share in the Company.

On September 3, 2010, the Company amended the 2006 Incentive Plan such that the maximum aggregate number of shares which may be issued was increased to 6,509,157. The number of Shares covered by each outstanding Award and authorized for issuance under the 2006 Incentive Plan would also be proportionately adjusted as a result of the 10-for-1 share split.

Details of the exercise price and vesting of the options in relation to the 2004 Option Plan, the 2004 Modified Plan and the 2006 Incentive Plan (collectively, the "Pre-IPO Share Option Schemes") are contained in Note 24 to the interim financial statements.

The following tables are extracted from the Prospectus of the Company:

Particulars of the options granted under the Pre-IPO Share Option Schemes are as follows (which does not take into account the effect of the 10-for-1 share split which will take place immediately prior to the Global Offering):

Pre-IPO Share Option Schemes:

| Name of grantee | Position | Exercise Price (US$) | No. of Shares subject to the outstanding options | Weighted average exercise price (in US$) | % of issued share capital immediately after completion of the Global Offering (Note 1) | Current shareholding (Note 15) | Number of options that become exercisable in year 2006 | Number of options that become exercisable in year 2007 | Number of options that become exercisable in year 2008 | Number of options that become exercisable in year 2009 | Number of options that become exercisable in year 2010 | Number of options that become exercisable in year 2011 | Number of options that become exercisable in year 2012 | Number of options that become exercisable in year 2013 | Number of options that become exercisable in year 2014 | Number of options that become exercisable in year 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors and chief executive officers of the Company and its subsidiaries** | | | | | | | | | | | | | | | | |
| Zhaohua Chang | Executive Director of the Company, and a Director of MP Shanghai | 3.062 | 1,000,000 (Note 2) | 3.062 | 0.68 | 21,711,000* | – | – | – | – | – | 250,000 | 250,000 | 250,000 | 250,000 | – |
| Yan Zhang | President and executive Director of the Company and MP Shanghai; executive Director of MP Lifesciences Shanghai | 3.062 | 450,000** (Note 3) | 3.062 | 0.31 | 320,000** | – | – | 15,000 | 42,500 | 42,500 | 87,500 | 87,500 | 87,500 | 87,500 | – |
| Qiyi Luo | Executive Director of the Company and Chief Technology Officer of the Company and MP Shanghai | 2.75<br>3.062 | 28,045**<br>250,000** (Note 4) | 3.031 | 0.19 | 1,091,955 | – | – | 7,012 | 7,011 | 7,011 | 69,511 | 62,500 | 62,500 | 62,500 | – |
| Hongbin Sun | Chief Financial Officer and executive Director of the Company and MP Shanghai | 3.062 | 400,000 (Note 5) | 3.062 | 0.27 | None | – | – | – | – | – | 100,000 | 100,000 | 100,000 | 100,000 | – |
| Yufei Hu | Executive Director of MP Orthopedics, and Vice President of Finance of the Company and MP Shanghai | 3.062 | 350,000** (Note 6) | 3.062 | 0.24 | None | – | – | – | 62,500 | 62,500 | 87,500 | 87,500 | 25,000 | 25,000 | – |
| Yimin Xu | Executive Director of MP B.V. and Vice President of QA & Regulatory of MP Shanghai | 2.75<br>3.062 | 4,443<br>100,000 (Note 7) | 3.049 | 0.07 | 605,226 which includes 59,669** | – | – | – | – | – | 29,443 | 25,000 | 25,000 | 25,000 | – |

| Name of grantee | Position | Exercise Price (US$) | No. of Shares subject to the outstanding options | Weighted average exercise price (in US$) | % of issued share capital immediately after completion of the Global Offering (Note 1) | Current shareholding (Note 15) | Number of options that become exercisable in year 2006 | Number of options that become exercisable in year 2007 | Number of options that become exercisable in year 2008 | Number of options that become exercisable in year 2009 | Number of options that become exercisable in year 2010 | Number of options that become exercisable in year 2011 | Number of options that become exercisable in year 2012 | Number of options that become exercisable in year 2013 | Number of options that become exercisable in year 2014 | Number of options that become exercisable in year 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Daozhi Liu | Vice President of Research Center of MP Shanghai and General Manager of MP Orthopedics | 2.75<br>3.062 | 3,739<br>100,000<br>(Note 8) | 3.051 | 0.07 | 461,261 | – | – | 935 | 935 | 935 | 25,934 | 25,000 | 25,000 | 25,000 | – |
| **Senior management of the Company and its subsidiaries** | | | | | | | | | | | | | | | | |
| Philip Li Wang | Chief Operating Officer of the Company and MP Shanghai | 2.75<br>3.062 | 63,704**<br>250,000**<br>(Note 9) | 2.999 | 0.21 | 640,000 | – | – | 15,926 | 15,926 | 15,926 | 78,426 | 62,500 | 62,500 | 62,500 | – |
| Kongrong Karl Pan | Vice President of Manufacturing and Operation of the Company and MP Shanghai | 3.062 | 500,000<br>(Note 10) | 3.062 | 0.34 | None | – | – | – | – | 80,000 | 105,000 | 105,000 | 105,000 | 105,000 | – |
| Jie Zhang | Senior Vice President of General Administration of MP Shanghai | 2.75<br>3.062 | 2,569<br>100,000<br>(Note 11) | 3.054 | 0.07 | 547,431<br>which includes<br>150,000** | – | – | – | – | – | 27,569 | 25,000 | 25,000 | 25,000 | – |
| Bo Peng | Chief Marketing Office of the Company and MP Shanghai | 2.75<br>3.062 | 208,073**<br>214,873**<br>(Note 12) | 2.909 | 0.29 | 162,812<br>which includes<br>20,885 ** | – | – | 52,019 | 52,018 | 52,018 | 105,737 | 53,718 | 53,718 | 53,718 | – |

| Name of grantee | Position | Exercise Price (US$) | No. of Shares subject to the outstanding options | Weighted average exercise price (in US$) | % of issued share capital immediately after completion of the Global Offering (Note 1) | Current shareholding (Note 15) | Number of options that become exercisable in year 2006 | Number of options that become exercisable in year 2007 | Number of options that become exercisable in year 2008 | Number of options that become exercisable in year 2009 | Number of options that become exercisable in year 2010 | Number of options that become exercisable in year 2011 | Number of options that become exercisable in year 2012 | Number of options that become exercisable in year 2013 | Number of options that become exercisable in year 2014 | Number of options that become exercisable in year 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Xiaomin Huang | General Manager of MP Lifesciences Shanghai | 3.062 | 250,000 (Note 13) | 3.062 | 0.17 | None | – | – | – | – | 37,500 | 62,500 | 62,500 | 62,500 | 25,000 | – |
| **Other grantees (Note 14)** | | | | | | | | | | | | | | | | |
| **Consultants in aggregate (17)** | N/A | 0.09 to 3.062 | 1,077,892 | 0.577 | 0.73 | None | – | 25,000 | 25,000 | 25,000 | 25,000 | 940,392 | 12,500 | 12,500 | 12,500 | – |
| **Other employees in aggregate (406)** | N/A | | 1,268,824 | 2.780 | 0.86 | 1,146,630 | 52,112 | 19,091 | 54,983 | 50,057 | 87,598 | 337,314 | 262,022 | 219,875 | 150,774 | 35,000 |
| 2 employees being granted between 50,001 to 200,000 options | N/A | 3.062 | 381,868 | 3.062 | 0.26 | | – | – | 10,000 | 10,000 | 22,500 | 146,868 | 65,000 | 55,000 | 42,500 | 30,000 |
| 12 employees being granted between 10,001 to 50,000 options | N/A | 2.75 to 4.25 | 459,609 | 3.001 | 0.31 | | 24,716 | 5,863 | 10,433 | 15,433 | 37,933 | 100,433 | 100,433 | 91,865 | 72,500 | – |
| 392 employees being granted less than 10,000 options | N/A | 2.75 | 427,347 | 2.750 | 0.29 | | 27,396 | 13,228 | 34,550 | 24,624 | 27,165 | 90,013 | 96,589 | 73,010 | 35,774 | 5,000 |
| **Total number of Shares** | | | 6,622,162 | | | | | | | | | | | | | |
| **Total % of issued share capital immediately after completion of the Global Offering** | | | | | 4.50 | | | | | | | | | | | |

* indirect shareholding through We'Tron Capital China Limited.

** indicates the relevant interest are held through a BVI special purpose vehicle.

*Note:*

(1) Assuming that all granted options under the Pre-IPO Share Option Schemes have been fully exercised.

(2) All of the 1,000,000 outstanding options were granted to Zhaohua Chang on July 9, 2010 and the exercise period is from July 9, 2011 to July 8, 2020. There is only one exercise price for the outstanding options held by Zhaohua Chang, being US$3.062.

(3) 100,000 outstanding options were granted to Yan Zhang on July 25, 2008 and the exercise period is from July 25, 2009 to July 24, 2018. 250,000 outstanding options were granted to Yan Zhang on July 9, 2010 and the exercise period is from July 9, 2011 to July 8, 2020. The remaining 100,000 outstanding options were granted to Yan Zhang on August 9, 2010 and the exercise period is from August 9, 2011 to August 8, 2020. There is only one exercise price for the outstanding options held by Yan Zhang, being US$3.062.

(4) 28,045 outstanding options were granted to Qiyi Luo on March 2, 2007, the exercise period is from March 2, 2008 to March 1, 2017, and the exercise price is US$2.75. 250,000 outstanding options were granted to Qiyi Luo on July 9, 2010, the exercise period is from July 9, 2011 to July 8, 2020, and the exercise price is US$3.062.

(5) All the outstanding options were granted to Hongbin Sun on August 9, 2010. The exercise period is from August 9, 2011 to August 8, 2020. The exercise price is US$3.062.

(6) 250,000 outstanding options were granted to Yufei Hu on December 1, 2008 and the exercise period is from December 1, 2009 to November 30, 2018. 100,000 outstanding options were granted to Yufei Hu on July 9, 2010 and the exercise period is from July 9, 2011 to July 8, 2020. The exercise price is US$3.062.

(7) 4,443 outstanding options were granted to Yimin Xu on March 2, 2007, the exercise period is from March 2, 2008 to March 1, 2017, and the exercise price is US$2.75. 100,000 outstanding options were granted to Yimin Xu on July 9, 2010, the exercise period is from July 9, 2011 to July 8, 2020, and the exercise price is US$3.062.

(8) The 3,739 outstanding options were granted to Daozhi Liu on March 2, 2007, the exercise period is from March 2, 2008 to March 1, 2017, and the exercise price is US$2.75. The 100,000 outstanding options were granted to Daozhi Liu on July 9, 2010, the exercise period is from July 9, 2011 to July 8, 2020, and the exercise price is US$3.062.

(9) The 63,704 outstanding options were granted to Philip Li Wang on March 2, 2007, the exercise period is from March 2, 2008 to March 1, 2017, and the exercise price is US$2.75. The 250,000 outstanding options were granted to Philip Li Wang on July 9, 2010, the exercise period is from July 9, 2011 to July 8, 2020, and the exercise price is US$3.062.

(10) The 400,000 outstanding options were granted to Kongrong Karl Pan on October 21, 2009 and the exercise period is from October 21, 2010 to October 20, 2019. The remaining 100,000 outstanding options were granted to him on July 9, 2010 and the exercise period is from July 9, 2011 to July 8, 2020. The exercise price is US$3.062.

(11) The 2,569 outstanding options were granted to Jie Zhang on March 2, 2007, the exercise period is from March 2, 2008 to March 1, 2017, and the exercise price is US$2.75. The 100,000 outstanding options were granted to Jie Zhang on July 9, 2010, the exercise period is from July 9, 2011 to July 8, 2020, and the exercise price is US$3.062.

(12) The 208,073 outstanding options were granted to Bo Peng on March 2, 2007, the exercise period is from March 2, 2008 to March 1, 2017, and the exercise price is US$2.75. The 214,873 were granted on July 9, 2010, the exercise period is from July 9, 2011 to July 8, 2020, and the exercise price is US$3.062.

(13) The 150,000 outstanding options were granted to Xiaomin Huang on December 1, 2008 and the exercise period is from December 1, 2009 to November 30, 2018. The remaining 100,000 outstanding options were granted to Xiaomin Huang on July 9, 2010 and the exercise period is from July 9, 2010 to July 8, 2020. The exercise price is US$3.062.

(14) The table sets out below shows the grant period and the exercise prices of our grantees, including grantees who are not our Directors and senior management.

| | Grant Period | Exercise Price (US$) |
|---|---|---|
| 1. | prior to June 2006 | nil to 1.260 |
| 2. | March 2007 to May 2007 | 2.750 |
| 3. | May 2007 to current | 3.062 |
| 4. | February 2009 | 4.250 |

Other than the exercise price, no grantee under our Pre-IPO Share Option Schemes is required to pay any kind of consideration for his or her options. Our employees normally receive options either on their first day of joining our Group, or pursuant to resolutions passed by our Board of Directors or our executive committee. The vesting period normally ranges from four to five years and the exercise period typically expires ten years after the date of grant, and starts from the end of the first year of the vesting period. As such, the exercise periods for the options held by our employees vary depending on when they join the Group.

(15) The number of Shares held by the relevant grantee upon exercise of the options previously granted to him or her.

# Management Discussion and Analysis

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

Since the Company was only listed on the Stock Exchange on September 24, 2010, the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Corporate Governance Code") was not applicable to the Company for the six months ended June 30, 2010.

However, none of the Directors is aware of any information that would reasonably indicate that the Company or any of its directors is not or was not, for any part of the period between the date of listing of the Company and the date of this report in due compliance with the code provisions of the Corporate Governance Code.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code since the Company's listing.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the interim report of the Group for the six months ended June 30, 2010.

By Order of the Board
**MicroPort Scientific Corporation**
**Dr. Zhaohua Chang**
*Chairman*

Shanghai, China
September 29, 2010

# Auditor's Report

**Independent auditor's report to the board of directors of MicroPort Scientific Corporation**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated interim financial statements of MicroPort Scientific Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 23 to 110, which comprise the consolidated and company balance sheets as at June 30, 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the 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 financial statements.

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

# Auditor's Report

## OPINION

In our opinion, the consolidated interim financial statements give a true and fair view of the state of affairs of the Group and of the Company as at June 30, 2010 and of the Group's profit and cash flows for the six months then ended 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.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2(b) to the consolidated interim financial statements which states that the comparative amounts of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows in respect of the six months ended June 30, 2009 and the related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts. Those comparative amounts have not been audited and we therefore do not express an audit opinion on them.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

September 29, 2010

# Consolidated Income Statement

For the six months ended June 30, 2010

| | Note | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|---|
| **Revenue** | 3, 4 | **375,677** | 292,017 |
| Cost of sales | | **(49,431)** | (38,360) |
| **Gross profit** | | **326,246** | 253,657 |
| Other revenue | 5 | **2,209** | 7,701 |
| Other net income/(loss) | 5 | **1,161** | (163) |
| Research and development costs | | **(49,150)** | (38,042) |
| Sales and marketing costs | | **(54,067)** | (44,561) |
| Administrative expenses | | **(25,862)** | (21,504) |
| Other operating costs | | **(11,404)** | (426) |
| **Profit from operations** | | **189,133** | 156,662 |
| Finance costs | 6(a) | **(10,518)** | (10,887) |
| **Profit before taxation** | 6 | **178,615** | 145,775 |
| Income tax | 7(a) | **(28,911)** | (38,214) |
| **Profit for the period** | | **149,704** | 107,561 |
| **Earnings per share** | 11 | | |
| Basic (RMB) | | **0.13** | 0.10 |
| Diluted (RMB) | | **0.13** | 0.09 |

The notes on pages 30 to 110 form part of these interim financial statements.

# Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2010

| | Note | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|---|
| **Profit for the period** | | **149,704** | 107,561 |
| **Other comprehensive income for the period** | | | |
| Exchange differences of translation of financial statements of entities outside the PRC, net of nil tax | | **(2,178)** | 122 |
| **Total comprehensive income for the period** | | **147,526** | 107,683 |

The notes on pages 30 to 110 form part of these interim financial statements.

# Consolidated Balance Sheet

At June 30, 2010

| | Note | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| — Property, plant and equipment | 12 | **178,193** | 156,802 |
| — Interests in leasehold land held for own use under operating leases | 12 | **37,158** | 37,548 |
| | | **215,351** | 194,350 |
| Intangible assets | 13 | **9,903** | 10,023 |
| Prepayments for fixed assets | | **27,175** | 14,412 |
| Goodwill | 14 | **2,105** | 2,105 |
| Deferred tax assets | 22(b) | **5,962** | 6,667 |
| | | **260,496** | 227,557 |
| **Current assets** | | | |
| Inventories | 16 | **68,989** | 56,695 |
| Trade and other receivables | 17 | **231,770** | 143,817 |
| Deposits with banks | 18 | **202,601** | 193,595 |
| Cash and cash equivalents | 19 | **68,201** | 90,194 |
| | | **571,561** | 484,301 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **67,119** | 152,260 |
| Short term loans | 21 | **50,000** | — |
| Long term loans (current portion) | 21 | **456** | 448 |
| Redeemable convertible preference shares | 25(c)(ii) | **90,501** | 82,262 |
| Income tax payable | 22(a) | **14,872** | 26,299 |
| Deferred income | 23 | **134** | 142 |
| | | **223,082** | 261,411 |
| **Net current assets** | | **348,479** | 222,890 |
| **Total assets less current liabilities** | | **608,975** | 450,447 |

# Consolidated Balance Sheet — continued

At June 30, 2010

| | Note | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Long term loans | 21 | **4,194** | 4,131 |
| Deferred income | 23 | **26,447** | 23,740 |
| Deferred tax liabilities | 22(b) | **34,804** | 34,883 |
| | | **65,445** | 62,754 |
| **NET ASSETS** | | **543,530** | 387,693 |
| **CAPITAL AND RESERVES** | 25 | | |
| Share capital | | **89** | 89 |
| Reserves | | **543,441** | 387,604 |
| **TOTAL EQUITY** | | **543,530** | 387,693 |

Approved and authorized for issue by the board of directors on September 29, 2010

**Zhaohua Chang**
*Chairman*

**Hongbin Sun**
*Chief Financial Officer*

The notes on pages 30 to 110 form part of these interim financial statements.

# Company Balance Sheet

At June 30, 2010

| | Note | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 15 | **528,006** | 524,566 |
| **Current assets** | | | |
| Other receivables | 17 | **7,338** | 114,433 |
| Cash and cash equivalents | 19 | **4,811** | 4,162 |
| | | **12,149** | 118,595 |
| **Current liabilities** | | | |
| Other payables | 20 | **33,473** | 129,653 |
| Redeemable convertible preference shares | 25(c)(ii) | **90,501** | 82,262 |
| Income tax payable | 22(a) | **—** | 4,754 |
| | | **123,974** | 216,669 |
| **Net current liabilities** | | **(111,825)** | (98,074) |
| **Total assets less current liabilities** | | **416,181** | 426,492 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 22(b) | **12,972** | 12,972 |
| **NET ASSETS** | | **403,209** | 413,520 |
| **CAPITAL AND RESERVES** | 25(a) | | |
| Share capital | | **89** | 89 |
| Reserves | | **403,120** | 413,431 |
| **TOTAL EQUITY** | | **403,209** | 413,520 |

Approved and authorized for issue by the board of directors on September 29, 2010

**Zhaohua Chang**
*Chairman*

**Hongbin Sun**
*Chief Financial Officer*

The notes on pages 30 to 110 form part of these interim financial statements.

# Consolidated Statement of Changes in Equity

For the six months ended June 30, 2010

| | Note | Share capital RMB'000 Note 25(c)(i) | Share premium RMB'000 Note 25(d)(i) | Contributed surplus RMB'000 Note 25(d)(ii) | Translation reserve RMB'000 Note 25(d)(iii) | Share-based compensation capital reserve RMB'000 Note 25(d)(iv) | Statutory general reserve RMB'000 Note 25(d)(v) | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | | | | |
| **At January 1, 2009** | | 89 | 6,638 | 91,893 | 11,569 | 10,263 | 13,828 | 273,323 | 407,603 |
| **Changes in equity for the six months ended June 30, 2009 (unaudited):** | | | | | | | | | |
| Equity-settled share-based transactions | 24(c) | – | – | – | – | 3,873 | – | – | 3,873 |
| Expiry of share options | | – | – | – | – | (120) | – | 120 | – |
| Total comprehensive income for the period | | – | – | – | 122 | – | – | 107,561 | 107,683 |
| **At June 30, 2009 and July 1, 2009 (unaudited)** | | 89 | 6,638 | 91,893 | 11,691 | 14,016 | 13,828 | 381,004 | 519,159 |
| **Changes in equity for the six months ended December 31, 2009 (unaudited):** | | | | | | | | | |
| Dividends approved in respect of the previous year | | – | – | (91,893) | – | – | – | (123,819) | (215,712) |
| Equity-settled share-based transactions | | – | – | – | – | 968 | – | – | 968 |
| Shares issued under the share option scheme | | – | 10,260 | – | – | (6,249) | – | – | 4,011 |
| Expiry of share options | | – | – | – | – | (1,385) | – | 1,385 | – |
| Total comprehensive income for the period | | – | – | – | 455 | – | – | 78,812 | 79,267 |
| **At December 31, 2009 and January 1, 2010** | | 89 | 16,898 | – | 12,146 | 7,350 | 13,828 | 337,382 | 387,693 |
| **Changes in equity for the six months ended June 30, 2010:** | | | | | | | | | |
| Dividends approved in respect of the previous year | 25(b) | – | – | – | – | – | – | (2,370) | (2,370) |
| Equity-settled share-based transactions | 24(c) | – | – | – | – | 3,440 | – | – | 3,440 |
| Shares issued under the share option scheme | 25(c)(iii) | – | 10,923 | – | – | (3,682) | – | – | 7,241 |
| Total comprehensive income for the period | | – | – | – | (2,178) | – | – | 149,704 | 147,526 |
| **At June 30, 2010** | | 89 | 27,821 | – | 9,968 | 7,108 | 13,828 | 484,716 | 543,530 |

The notes on pages 30 to 110 form part of these interim financial statements.

# Consolidated Statement of Cash Flows

For the six months ended June 30, 2010

| | Note | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 19(b) | **125,820** | 94,979 |
| Tax paid: | | | |
| — PRC income tax paid | | **(27,812)** | (21,508) |
| — PRC withholding tax paid | | **(11,884)** | — |
| — Non-PRC income tax paid | | **(16)** | — |
| **Net cash generated from operating activities** | | **86,108** | 73,471 |
| **Investing activities** | | | |
| Payment for the purchase of fixed assets | | **(51,617)** | (13,984) |
| Proceeds from sale of fixed assets | | **7** | — |
| Payment for the purchase of intangible assets | | **—** | (300) |
| Expenditure on development project | | **(248)** | — |
| Placement of deposits with banks with original maturities over three months | | **(200,000)** | (206,000) |
| Uplift of deposits with banks with original maturities over three months | | **191,000** | 155,000 |
| Increase in pledged deposits | | **(6)** | (10) |
| Interest received | | **4,547** | 6,536 |
| **Net cash used in investing activities** | | **(56,317)** | (58,758) |
| **Financing activities** | | | |
| Proceeds from new loans | | **100,000** | — |
| Repayments of loans | | **(50,000)** | (21,000) |
| Proceeds from shares issued under the share option scheme | 25(c)(iii) | **7,241** | — |
| Interest paid | | **(2,208)** | (167) |
| Dividends paid to ordinary shareholders | | **(104,080)** | (10,188) |
| Dividends paid to holder of redeemable convertible preference shares | | **(2,596)** | — |
| **Net cash used in financing activities** | | **(51,643)** | (31,355) |
| **Net decrease in cash and cash equivalents** | | **(21,852)** | (16,642) |
| **Cash and cash equivalents at beginning of the period** | | **90,194** | 66,461 |
| **Effect of foreign exchange rate changes** | | **(141)** | (5) |
| **Cash and cash equivalents at end of the period** | 19(a) | **68,201** | 49,814 |

The notes on pages 30 to 110 form part of these interim financial statements.

# Notes to the Consolidated Interim Financial Statements

For the six months ended June 30, 2010
(Expressed in Renminbi unless otherwise indicated)

## 1 GENERAL INFORMATION

MicroPort Scientific Corporation (the "Company") was incorporated in the Cayman Islands on July 14, 2006 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal business of the Company and its subsidiaries are the manufacturing and distribution of medical devices in the People's Republic of China (the "PRC"). The details of the subsidiaries directly or indirectly owned by the Company are set out in note 15.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 24, 2010.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34, *Interim finance reporting*, and all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. For the purposes of preparing these financial statements, the Group has adopted all these new and revised HKFRSs throughout the periods presented, except for any new or revised HKFRSs that are not yet effective for accounting period beginning on January 1, 2010. The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Accountants' Report in Appendix I to the Company's prospectus dated September 13, 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2010, which have not adopted by the Group are set out in note 30.

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of these financial statements is set out below.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (b) Basis of preparation and presentation of the interim financial statements

The comparatives of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows in respect of the six months ended June 30, 2009 and the related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts and have not been audited.

### (c) Basis of measurement

The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Group's major operating subsidiaries, rounded to the nearest thousand. The financial statements are prepared on the historical cost basis, except for the redeemable convertible preference shares which are stated at fair value as explained in note 25(c)(ii) to the interim financial statements.

### (d) Use of estimates and judgement

The preparation of the financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 29.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (e) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

### (f) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in the income statement.

On disposal of a cash-generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (g) Property, plant and equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (note 2(j)).

Cost includes expenditure that is directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially completed. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major component) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other net income in the income statement.

#### (ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (g) Property, plant and equipment — continued

#### (iii) Depreciation

Depreciation is recognized in the income statement on a straight-line basis after taking into account the estimated residual values over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives of property, plant and equipment are as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

— Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 10 years from the date of completion, and unexpired terms of the leases; and

| | |
|---|---|
| — Equipment and machinery | 5 to 10 years |
| — Office equipment, furniture and fixtures | 5 to 10 years |
| — Motor vehicles | 5 years |
| — Computer software | 3 years |

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified above.

Depreciation methods, useful lives of assets and residual values, if any, are reviewed at each balance sheet date.

### (h) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. Capitalized development costs are stated at cost less accumulated amortization and impairment losses (note 2(j)). Other development expenditure is recognized as an expense in the period in which it is incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (h) Intangible assets (other than goodwill) — continued

Intangible assets acquired by the Group are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (note 2(j)).

Amortization of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| — Diabetes technology | 17 years |
| — Diabetes license | 17 years |
| — Trademark | 35 months |

Both the period and method of amortization are reviewed annually.

### (i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### (ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (i) Leased assets — continued

#### (ii) Operating lease charges — continued

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

### (j) Impairment of assets

#### (i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows:

— For trade and other receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (j) Impairment of assets — continued

#### (i) Impairment of trade and other receivables — continued

— For trade and other receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the income statement.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (j) Impairment of assets — continued

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— fixed assets;

— intangible assets;

— goodwill; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset that does not generate cash inflows largely independent of those from other assets the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— ***Recognition of impairment losses***

An impairment loss is recognized in the income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (j) Impairment of assets — continued

#### (ii) Impairment of other assets — continued

– ***Reversals of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognized.

### (k) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

### (l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts (note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (n) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (o) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognized as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Preference share capital classified as a liability is recognized in accordance with the Group's policy for interest-bearing borrowings set out in note 2(n), except when the preference share capital is initially designated as a financial liability at fair value through profit or loss, in which case the preference share capital is initially recognized at fair value, and at each balance sheet date, the change in fair value on remeasurement is recognized immediately in the income statement as finance costs. Dividends on preference share capital classified as a liability are recognized on an accruals basis in the income statement as part of finance costs.

### (p) Trade and other payables

Trade and other payables are initially recognized at fair value. Trade and other payables are thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (q) Employee benefits

#### (i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a share-based compensation capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest. This accounting policy also applies to share options granted to outside consultants as those consultants provide personal services similar to services provided by an employee.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the income statement in the period of review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share-based compensation capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the share-based compensation capital reserve until either the option is exercised (in which case it is transferred to share premium) or the vested option expires or is forfeited (in which case it is released directly to retained earnings).

#### (iii) Termination benefits

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (r) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (r) Income tax — continued

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

### (s) Provisions and contingent liabilities

#### (i) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognized at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognized at the higher of the amount initially recognized, less accumulated amortization where appropriate, and the amount that would be determined in accordance with note 2(s)(ii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(s)(ii).

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (s) Provisions and contingent liabilities — continued

#### (ii) Other provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

#### (i) Sale of goods

The Group recognizes revenue when the customer takes ownership and assumes risk of loss of the goods. For sales of medical devices through appointed sales distributors, the transfer of ownership occurs at the time when the medical device is shipped from or picked up by the distributors in the Group's premises without any recourse.

#### (ii) Interest income

Interest income is recognized as it accrues using the effective interest method.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (t) Revenue recognition — continued

#### (iii) Government grants

Unconditional government grants are recognized as income when the grants become receivable.

Conditional government grants that relate to specific research and development projects are recognized in the balance sheet initially as deferred income upon receipt. These grants are recognized as income when the relevant conditions have been fulfilled.

Grants that compensate for expenses incurred are recognized as income on a systematic basis in the same periods in which the expenses are incurred. In the event when these expenses have already been incurred, conditional grants income are recognized immediately as income at the time when the conditions have been fulfilled.

### (u) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the date of the transaction. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognized.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use of sale are capitalized as part of the cost of that asset.

Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

### (w) Related parties

For the purposes of the financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member or such an individual, or is an entity under the control, joint control or significant influence or such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 2 SIGNIFICANT ACCOUNTING POLICIES — continued

### (x) Segment reporting

Operating segments, and the amounts of each segment item reported in the interim financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 REVENUE

The Group derives revenue principally from the sale of medical devices through appointed sales distributors. Sales of medical devices represent the invoiced value of goods, net of value added taxes, trade discounts, allowances and rebates. The general sales terms and conditions under which the Group generally operates are that all products sold are non-refundable. Sales returns are only allowed when defective products are reported to the Group within the time as agreed by buyer and seller. The Group does not provide products warranties to customers.

In the PRC, value added tax ("VAT") of 17% of the invoice amount is collected in respect of the sales of goods on behalf of the tax authorities. The VAT is not revenue of the Group, instead the amount is recorded as liability until such VAT is paid to the tax authorities.

## 3 REVENUE — continued

Revenue from the sales of medical devices mainly comprises three major categories of products, namely drug eluting stents, thoracic aortic aneurysm ("TAA")/abdominal aortic aneurysm ("AAA") stent grafts and bare metal stents. Revenue by major category of products is as follows:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| | | **(unaudited)** |
| Drug eluting stents | **327,443** | 258,323 |
| TAA/AAA stent grafts | **23,431** | 14,809 |
| Bare metal stents | **6,509** | 7,265 |
| Others | **18,294** | 11,620 |
| | **375,677** | 292,017 |

## 4 SEGMENT REPORTING

The Group manages its businesses by different lines of businesses and geographic locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Vascular devices business: sales, manufacture, research and development of drug eluting stents, TAA/AAA stent grafts, bare metal stents and medical stent related products to appointed sales distributors.

— Diabetes devices business: sales, manufacture, research and development of devices related to diabetes mellitus.

— Orthopedics devices business: sales, research and development of orthopedics technology.

### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of corporate assets. Segment liabilities include trade creditors, accruals, loans and deferred government grant income attributable to the activities of the individual segments.

## 4 SEGMENT REPORTING — continued

### (a) Segment results, assets and liabilities — continued

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "segment net profit/(loss)". Items that are not specifically attributed to individual segments, such as unallocated corporate administrative costs, equity-settled share-based compensation expenses, changes in fair value of redeemable convertible preference shares, listing expenses incurred for the Company's initial public offerings and PRC dividend withholding tax are excluded from segment net profit/(loss).

In addition to receiving segment information concerning net profit, management is provided with segment information concerning revenue, significant non-cash income statement items, depreciation, amortization and additions to non-current segment assets used by the segments in their operations.

| | Six months ended June 30, 2010 | | | |
|---|---|---|---|---|
| | Vascular devices business RMB'000 | Diabetes devices business RMB'000 | Orthopedics devices business RMB'000 | Total RMB'000 |
| Revenue from external customers (note (d)) | 372,344 | 3,333 | — | 375,677 |
| Segment net profit/(loss) | 183,033 | (5,004) | (6,299) | 171,730 |
| Depreciation and amortization for the period | 11,063 | 1,052 | 651 | 12,766 |
| Income tax expense | 28,905 | 6 | — | 28,911 |
| Write-down of inventories | 2,169 | — | — | 2,169 |
| Additions to non-current segment assets | 32,319 | 1,371 | — | 33,690 |

| | At June 30, 2010 | | | |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Reportable segment assets | 717,755 | 55,884 | 46,853 | 820,492 |
| Reportable segment liabilities | 99,989 | 5,430 | 5 | 105,424 |

## 4 SEGMENT REPORTING — continued

### (a) Segment results, assets and liabilities — continued

| | Six months ended June 30, 2009 (unaudited) | | | |
|---|---|---|---|---|
| | Vascular devices business RMB'000 | Diabetes devices business RMB'000 | Orthopedics devices business RMB'000 | Total RMB'000 |
| Revenue from external customers (note (d)) | 291,213 | 804 | — | 292,017 |
| Segment net profit/(loss) | 139,683 | (1,728) | (4,760) | 133,195 |
| Depreciation and amortization for the period | 8,821 | 1,420 | — | 10,241 |
| Income tax expense/(credit) | 26,499 | (114) | — | 26,385 |
| Write-down of inventories | 1,826 | 51 | — | 1,877 |
| Additions to non-current segment assets | 15,337 | 767 | — | 16,104 |

| | At December 31, 2009 | | | |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Reportable segment assets | 599,142 | 56,973 | 49,432 | 705,547 |
| Reportable segment liabilities | 88,628 | 4,408 | 10 | 93,046 |

## 4 SEGMENT REPORTING — continued

### (b) Reconciliation of reportable segment profit, assets and liabilities

| | Six months ended June 30, 2010 RMB'000 | Six months ended June 30, 2009 RMB'000 (unaudited) |
|---|---|---|
| **Profit** | | |
| Reportable segment net profit | **171,730** | 133,195 |
| Equity-settled share-based compensation expenses | **(3,440)** | (3,873) |
| Withholding tax on retained earnings of a PRC subsidiary | **—** | (11,829) |
| Change in fair value of redeemable convertible preference shares | **(8,239)** | (9,877) |
| Listing expenses | **(10,000)** | — |
| Unallocated income and expenses | **(347)** | (55) |
| Consolidated profit for the period | **149,704** | 107,561 |

| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **820,492** | 705,547 |
| Unallocated corporate assets | **11,565** | 6,311 |
| Consolidated total assets | **832,057** | 711,858 |
| **Liabilities** | | |
| Reportable segment liabilities | **105,424** | 93,046 |
| Unallocated corporate liabilities | **183,103** | 231,119 |
| Consolidated total liabilities | **288,527** | 324,165 |

## 4 SEGMENT REPORTING — continued

### (b) Reconciliation of reportable segment profit, assets and liabilities — continued

Unallocated income and expense mainly includes corporate administration costs.

Unallocated corporate assets mainly include cash and cash equivalents, prepayments and deposits which are not specifically attributable to individual segments.

Unallocated corporate liabilities mainly include dividends payable to Company's shareholders, redeemable convertible preference shares, deferred tax liabilities in respect of withholding tax on retaining earnings of a PRC subsidiary and bank loans not specifically attributable to individual segments.

### (c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered. Revenue attributable to individual countries except the PRC is not material. Substantially all of the Group's assets are located in the PRC, therefore, assets by geographic location is not presented.

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| | | **(unaudited)** |
| The PRC (place of domicile) | **347,461** | 271,002 |
| Asia | **14,650** | 12,394 |
| South America | **8,941** | 5,634 |
| Europe | **4,625** | 2,987 |
| | **28,216** | 21,015 |
| | **375,677** | 292,017 |

## 4 SEGMENT REPORTING — continued

### (d) Major customers

The Group's customer base is diversified and includes three customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended June 30, 2010 (six months ended June 30, 2009 (unaudited): three customers). Revenue from the vascular devices business in respect of these customers is set out below:

| | Vascular devices business<br>Six months ended June 30,<br>2010<br>RMB'000 | <br><br>2009<br>RMB'000<br>(unaudited) |
|---|---|---|
| Customer A | **85,949** | 57,406 |
| Customer B | **47,732** | 32,000 |
| Customer C | **44,634** | 37,300 |
| | **178,315** | 126,706 |

A group of entities known to be under common control is considered as a single customer in the above analysis. All of these customers purchase medical devices from the Group in the PRC.

Further details of concentrations of credit risk arising from these customers are set out in note 26(a).

## 5 OTHER REVENUE AND NET INCOME/(LOSS)

| | Six months ended June 30,<br>2010<br>RMB'000 | <br>2009<br>RMB'000<br>(unaudited) |
|---|---|---|
| **Other revenue** | | |
| Government grant income | **200** | 3,289 |
| Interest income on bank deposits | **1,915** | 4,209 |
| Others | **94** | 203 |
| | **2,209** | 7,701 |
| **Other net income/(loss)** | | |
| Loss on disposal of fixed assets | **(6)** | — |
| Net foreign exchange gain/(loss) | **1,167** | (163) |
| | **1,161** | (163) |

## 6 PROFIT BEFORE TAXATION

**Profit before taxation is arrived at after charging/(crediting):**

| | | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|---|
| **(a)** | **Finance costs:** | | |
| | Interest on borrowings wholly repayable within five years | **1,967** | 836 |
| | Interest on other borrowings | **71** | 78 |
| | Bank charges | **241** | 96 |
| | Total interest expense on financial liabilities not at fair value through profit or loss | **2,279** | 1,010 |
| | Change in fair value of redeemable convertible preference shares | **8,239** | 9,877 |
| | | **10,518** | 10,887 |
| **(b)** | **Staff costs:** | | |
| | Salaries and allowances | **55,637** | 42,094 |
| | Contributions to defined contribution retirement schemes | **9,255** | 5,355 |
| | Equity-settled share-based compensation expenses (note 24(c)) | **3,416** | 3,777 |
| | | **68,308** | 51,226 |

Pursuant to the relevant labor rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement schemes organized by the local authorities. Contributions to these retirement schemes vest immediately.

Save for the above, the Group has no other material obligation for payment of retirement benefits beyond the contributions described above.

## 6 PROFIT BEFORE TAXATION — continued

**Profit before taxation is arrived at after charging/(crediting): —** continued

| | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|
| **(c) Other items:** | | |
| Cost of inventories (note 16(b)) | **62,025** | 46,727 |
| Depreciation | **12,008** | 9,839 |
| Amortization of interests in leasehold land held for own use under operating leases | **390** | 51 |
| Amortization of intangible assets | **368** | 351 |
| Reversal of impairment losses: | | |
| — trade receivables (net) | **—** | (100) |
| Operating lease charges in respect of properties | **797** | 812 |
| Listing expenses | **10,000** | — |
| Auditors' remuneration | **167** | 144 |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Income tax in the consolidated income statement represents:

| | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|
| **Current tax — PRC income tax** | | |
| Provision for the period | **28,449** | 22,473 |
| (Over)/under provision in respect of prior years | **(164)** | 1,450 |
| | **28,285** | 23,923 |
| **Deferred tax — PRC income tax** | | |
| Origination and reversal of temporary differences | **626** | 14,291 |
| | **28,911** | 38,214 |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT — continued

### (a) Income tax in the consolidated income statement represents: — continued

The Company is incorporated in the Cayman Islands. MP Medical and Leader City are incorporated in the British Virgin Islands. They are not subject to tax on income or capital gains under the current laws of the respective jurisdictions. In addition, upon any payments of dividends by the Company, MP Medical and Leader City, no withholding tax is imposed.

MP B.V. is subject to the Netherlands corporate income tax which was charged at progressive rates ranging from 20% to 25.5% during 2009 and 2010.

MP Shanghai, being a foreign investment enterprise registered and operating in the Specified Economic Development Zone in Pudong New Area in the PRC, has been recognized as a high and new-technology enterprise from 2008 to 2010 under which it is entitled to a preferential income tax rate of 15%. Accordingly, MP Shanghai is subject to income tax at 15% for 2009 and 2010.

MP Lifesciences Shanghai, MP Lifesciences Beijing and MP Orthopedics (established in May 2009) are subject to income tax at 25%.

According to the new Corporate Income Tax ("CIT") Law and its implementation rules, PRC-resident enterprises are levied withholding tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on January 1, 2008. Distributions of earnings generated prior to January 1, 2008 are exempt from such withholding tax.

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT — continued

**(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:**

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| | | **(unaudited)** |
| Profit before taxation | **178,615** | 145,775 |
| PRC statutory income tax rate | **25%** | 25% |
| Computed "expected" income tax expense | **44,654** | 36,444 |
| Effect of PRC preferential tax rates | **(19,431)** | (16,773) |
| Effect of the Netherlands' tax rate differential | **(52)** | 23 |
| Effect of entities not subject to income tax | **4,769** | 2,491 |
| Effect of non-deductible equity-settled share-based compensation expenses | **860** | 968 |
| Effect of other non-deductible expenses | **1,299** | 683 |
| Effect of deemed taxable income (note) | **—** | 4,105 |
| Effect of super-deduction on research and development expenses | **(4,597)** | (3,207) |
| Effect of tax losses not recognized | **1,573** | 201 |
| Withholding tax on retained earnings of a PRC subsidiary | **—** | 11,829 |
| (Over)/under provision in respect of prior years | **(164)** | 1,450 |
| Actual income tax expense | **28,911** | 38,214 |

*Note:* The amount in the six months ended June 30, 2009 represented the CIT payable in respect of the deemed sales amounts of the free goods offered to the Group's customers under a sales discount policy.

## 8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Six months ended June 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits-in-kind | Discretionary bonuses | Retirement scheme contributions | Share-based compensation | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive Director** | | | | | | |
| Zhaohua Chang | – | 341 | – | – | – | 341 |
| **Non-executive Directors** | | | | | | |
| Norithiro Ashida | – | – | – | – | – | – |
| Hiroshi Shirafuji | – | – | – | – | – | – |
| Xiaolong Liu | – | – | – | – | – | – |
| **Independent Non-executive Director** | | | | | | |
| Zezhao Hua | – | – | – | – | – | – |
| | – | 341 | – | – | – | 341 |

| | Six months ended June 30, 2009 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits-in-kind | Discretionary bonuses | Retirement scheme contributions | Share-based compensation | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive Director** | | | | | | |
| Zhaohua Chang | – | 310 | – | – | – | 310 |
| **Non-executive Directors** | | | | | | |
| Norithiro Ashida | – | – | – | – | – | – |
| Hiroshi Shirafuji | – | – | – | – | – | – |
| Fang Yao | – | – | – | – | – | – |
| | – | 310 | – | – | – | 310 |

## 8 DIRECTORS' REMUNERATION — continued

During the six months ended June 30, 2010, there were no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration (six months ended June 30, 2009 (unaudited): Nil).

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none were directors of the Company during the six months ended June 30, 2010 (six months ended June 30, 2009 (unaudited): none). The aggregate of the emoluments in respect of these individuals are as follows:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| | | **(unaudited)** |
| Salaries and other benefits | **2,152** | 2,114 |
| Retirement scheme contributions | **69** | 62 |
| Discretionary bonuses | **4,406** | 3,850 |
| Share-based compensation (note) | **978** | 2,364 |
| | **7,605** | 8,390 |

*Note:* This represents the estimated value of share options granted to the individuals with the highest emoluments under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii) and, in accordance with the policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The emoluments of the above individuals with highest emoluments are within the following bands:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **Number of individuals** | **Number of individuals** |
| | | **(unaudited)** |
| HK$1,000,001 to HK$1,500,000 | **1** | — |
| HK$1,500,001 to HK$2,000,000 | **4** | 5 |

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS — continued

During the six months ended June 30, 2010, there were no amounts paid or payable by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office; and there was no arrangement under which the above highest paid individuals waived or agreed to waive any remuneration (six months ended June 30, 2009 (unaudited): Nil).

## 10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB18,493,000 (six months ended June 30, 2009 (unaudited): RMB14,653,000) which has been dealt with in the interim financial statements of the Company.

## 11 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders and the weighted average number of ordinary shares during the period, taking into account the 10-for-1 share split of the Company's ordinary shares occurred on September 24, 2010 as if the share split had occurred at the beginning of the periods presented.

**Weighted average number of ordinary shares**

| | Six months ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| | Number of shares | Number of shares |
| | '000 | '000 |
| | | (unaudited) |
| Ordinary shares as if in issue at January 1 | **1,135,040** | 1,130,643 |
| Effect of share options exercised (note 25(c)(iii)) | **2,171** | — |
| Weighted average number of ordinary shares during the period | **1,137,211** | 1,130,643 |

## 11 EARNINGS PER SHARE — continued

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and weighted average number of ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

**Weighted average number of ordinary shares (diluted)**

| | Six months ended June 30, 2010 Number of shares '000 | 2009 Number of shares '000 (unaudited) |
|---|---|---|
| Weighted average number of ordinary shares during the period | **1,137,211** | 1,130,643 |
| Effect of deemed issue of shares under the Company's option scheme at nil consideration (note 24(d)) | **3,786** | 10,766 |
| Weighted average number of ordinary shares during the period | **1,140,997** | 1,141,409 |

## 12 FIXED ASSETS

### (a) The Group

| | Buildings held for own use RMB'000 | Leasehold improvements RMB'000 | Equipment and machinery RMB'000 | Office equipment, furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Computer software RMB'000 | Construction in progress RMB'000 | Sub-total RMB'000 | Interests in leasehold land held for own use under operating leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | |
| At January 1, 2009 | 69,617 | 21,448 | 63,540 | 12,023 | 8,310 | 6,016 | 992 | 181,946 | 5,104 | 187,050 |
| Exchange adjustments | – | – | – | 3 | – | 5 | – | 8 | – | 8 |
| Transfer | 616 | 173 | 3,786 | – | 1,946 | 90 | (6,774) | (163) | 163 | – |
| Additions | 8 | 684 | 16,140 | 3,751 | 1,707 | 1,719 | 26,373 | 50,382 | 33,646 | 84,028 |
| Disposals | (607) | (5) | (5,992) | (113) | – | – | – | (6,717) | – | (6,717) |
| At December 31, 2009 | 69,634 | 22,300 | 77,474 | 15,664 | 11,963 | 7,830 | 20,591 | 225,456 | 38,913 | 264,369 |
| At January 1, 2010 | **69,634** | **22,300** | **77,474** | **15,664** | **11,963** | **7,830** | **20,591** | **225,456** | **38,913** | **264,369** |
| Exchange adjustments | **–** | **–** | **–** | **(24)** | **–** | **(55)** | **–** | **(79)** | **–** | **(79)** |
| Transfer | **–** | **1,486** | **25,769** | **24** | **–** | **–** | **(27,279)** | **–** | **–** | **–** |
| Additions | **–** | **3,044** | **6,275** | **1,548** | **–** | **1,406** | **21,169** | **33,442** | **–** | **33,442** |
| Disposals | **–** | **(5)** | **(8)** | **(85)** | **–** | **(27)** | **–** | **(125)** | **–** | **(125)** |
| At June 30, 2010 | **69,634** | **26,825** | **109,510** | **17,127** | **11,963** | **9,154** | **14,481** | **258,694** | **38,913** | **297,607** |

## 12 FIXED ASSETS — continued

### (a) The Group — continued

| | Buildings held for own use RMB'000 | Leasehold improvements RMB'000 | Equipment and machinery RMB'000 | Office equipment, furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Computer software RMB'000 | Construction in progress RMB'000 | Sub-total RMB'000 | Interests in leasehold land held for own use under operating leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation, amortization and impairment:** | | | | | | | | | | |
| At January 1, 2009 | 4,488 | 3,225 | 33,070 | 4,986 | 3,536 | 3,553 | – | 52,858 | 587 | 53,445 |
| Exchange adjustments | – | – | – | 2 | – | 4 | – | 6 | – | 6 |
| Charge for the year | 1,310 | 2,153 | 10,345 | 2,304 | 1,652 | 1,966 | – | 19,730 | 778 | 20,508 |
| Impairment loss | – | – | 473 | – | – | – | – | 473 | – | 473 |
| Written back on disposals | – | (1) | (4,307) | (105) | – | – | – | (4,413) | – | (4,413) |
| At December 31, 2009 | 5,798 | 5,377 | 39,581 | 7,187 | 5,188 | 5,523 | – | 68,654 | 1,365 | 70,019 |
| At January 1, 2010 | **5,798** | **5,377** | **39,581** | **7,187** | **5,188** | **5,523** | **–** | **68,654** | **1,365** | **70,019** |
| Exchange adjustments | **–** | **–** | **–** | **(17)** | **–** | **(32)** | **–** | **(49)** | **–** | **(49)** |
| Charge for the period | **853** | **1,797** | **6,338** | **1,378** | **1,063** | **579** | **–** | **12,008** | **390** | **12,398** |
| Written back on disposals | **–** | **(3)** | **(8)** | **(74)** | **–** | **(27)** | **–** | **(112)** | **–** | **(112)** |
| At June 30, 2010 | **6,651** | **7,171** | **45,911** | **8,474** | **6,251** | **6,043** | **–** | **80,501** | **1,755** | **82,256** |
| **Net book value:** | | | | | | | | | | |
| At June 30, 2010 | **62,983** | **19,654** | **63,599** | **8,653** | **5,712** | **3,111** | **14,481** | **178,193** | **37,158** | **215,351** |
| At December 31, 2009 | 63,836 | 16,923 | 37,893 | 8,477 | 6,775 | 2,307 | 20,591 | 156,802 | 37,548 | 194,350 |

## 12 FIXED ASSETS — continued

**(b) The analysis of net book value of properties is as follows:**

| | The Group | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| In the PRC | | |
| — medium-term leases | **100,141** | 101,384 |
| *Representing:* | | |
| Buildings held for own use | **62,983** | 63,836 |
| Interests in leasehold land held for own use under operating leases | **37,158** | 37,548 |
| | **100,141** | 101,384 |

**(c)** At June 30, 2010, buildings held for own use with net book value of RMB29,653,000 (December 31, 2009: RMB30,164,000) have been pledged as security for long term loan (note 21(b)).

## 13 INTANGIBLE ASSETS

### The Group

| | Diabetes technology RMB'000 | Diabetes license RMB'000 | Trademark RMB'000 | Development costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At January 1, 2009 | 8,128 | 2,630 | – | – | 10,758 |
| Additions | – | – | 300 | – | 300 |
| At December 31, 2009 | 8,128 | 2,630 | 300 | – | 11,058 |
| At January 1, 2010 | **8,128** | **2,630** | **300** | **–** | **11,058** |
| Additions through internal development | **–** | **–** | **–** | **248** | **248** |
| At June 30, 2010 | **8,128** | **2,630** | **300** | **248** | **11,306** |
| **Accumulated amortization:** | | | | | |
| At January 1, 2009 | 239 | 77 | – | – | 316 |
| Charge for the year | 478 | 155 | 86 | – | 719 |
| At December 31, 2009 | 717 | 232 | 86 | – | 1,035 |
| At January 1, 2010 | **717** | **232** | **86** | **–** | **1,035** |
| Charge for the period | **240** | **78** | **50** | **–** | **368** |
| At June 30, 2010 | **957** | **310** | **136** | **–** | **1,403** |
| **Net book value:** | | | | | |
| At June 30, 2010 | **7,171** | **2,320** | **164** | **248** | **9,903** |
| At December 31, 2009 | 7,411 | 2,398 | 214 | – | 10,023 |

All amortization expenses were included as administrative expenses during the periods presented.

## 14 GOODWILL

### The Group

| | RMB'000 |
|---|---|
| **Cost:** | |
| At January 1, 2009, December 31, 2009, January 1, 2010 and June 30, 2010 | 2,105 |
| **Carrying amount:** | |
| At December 31, 2009 and June 30, 2010 | **2,105** |

### Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and reportable segment as follows:

| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|
| Diabetes devices business | **2,105** | 2,105 |

The recoverable amount of the CGU is determined based on value-on-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a six-year period. The cash flows are discounted using a discount rate of 18%. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment.

## 15 INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Unlisted investments, at cost | **528,006** | 524,566 |

The following list contains the particulars of subsidiaries of the Group at June 30, 2010. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place and date of incorporation/ establishment/ acquisition | Issued share capital | Attributable equity interest Direct % | Indirect % | Principal activity |
|---|---|---|---|---|---|
| MicroPort Medical Limited ("MP Medical") | British Virgin Islands, July 25, 2006 | USD2 | 100 | – | Investment holding |
| Leader City Limited ("Leader City") | British Virgin Islands, April 12, 2006 | USD2 | 100 | – | Investment holding |
| MicroPort Medical B.V. ("MP B.V.") | The Netherlands, acquired on September 4, 2006 | EUR18,000 | 100 | – | Marketing and distribution of the Group's products |
| MicroPort Medical (Shanghai) Co., Ltd. ("MP Shanghai") (微創醫療器械（上海）有限公司) * | The PRC, May 15, 1998 | USD12,000,000 | 40 | 60 | Manufacturing, distribution, research and development of medical devices |

(Expressed in Renminbi unless otherwise indicated)

## 15 INVESTMENTS IN SUBSIDIARIES — continued

| Name of company | Place and date of incorporation/ establishment/ acquisition | Issued share capital | Attributable equity interest Direct % | Indirect % | Principal activity |
|---|---|---|---|---|---|
| Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai") (上海微創生命科技有限公司) * | The PRC, April 28, 2008 | RMB45,000,000 | – | 100 | Manufacturing, distribution, research and development of diabetes devices |
| MicroPort Lifesciences (Beijing) Co., Ltd. ("MP Lifesciences Beijing") (微創（北京）生命醫學科技有限公司) * | The PRC, acquired on June 2, 2008 | RMB3,000,000 | – | 100 | Manufacturing, distribution, research and development of diabetes devices |
| Shanghai MicroPort Orthopedics Co., Ltd. ("MP Orthopedics") (上海微創骨科醫療科技有限公司) * | The PRC, May 18, 2009 | RMB45,000,000 | – | 100 | Distribution, research and development of orthopedics devices |

* The English translation of the entities' names are for reference only. The official names of these entities are in Chinese.

The Company's attributable equity interests in its subsidiaries have remained unchanged during the current period.

## 16 INVENTORIES

### (a) Inventories in the consolidated balance sheet comprise:

| | The Group | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Raw materials | **36,147** | 29,560 |
| Work in progress | **16,304** | 15,225 |
| Finished goods | **16,538** | 11,910 |
| | **68,989** | 56,695 |

All inventories are expected to be recovered within one year.

### (b) The analysis of the amount of inventories recognized as an expense and included in the consolidated income statement is as follows:

| | The Group | |
|---|---|---|
| | Six months ended June 30, | |
| | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| Carrying amount of inventories sold | **47,262** | 36,483 |
| Write-down of inventories | **2,169** | 1,877 |
| Cost of inventories sold | **49,431** | 38,360 |
| Cost of inventories directly recognized as research and development costs | **12,594** | 8,367 |
| Cost of inventories | **62,025** | 46,727 |

## 17 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Trade receivables | **207,559** | 121,672 | **—** | — |
| Amounts due from related parties (note 28(c)) | **10,779** | 14,701 | **—** | — |
| | **218,338** | 136,373 | **—** | — |
| Less: Allowance for doubtful debts | **(2,551)** | (2,551) | **—** | — |
| | **215,787** | 133,822 | **—** | — |
| Deposits and prepayments | **6,386** | 6,089 | **—** | — |
| Amounts due from subsidiaries | **—** | — | **631** | 114,433 |
| Other receivables | **9,597** | 3,906 | **6,707** | — |
| | **231,770** | 143,817 | **7,338** | 114,433 |

All of the trade and other receivables are expected to be recovered within one year. Amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

### (a) Aging analysis

Included in trade and other receivables are trade receivables and amounts due from related parties (net of allowance for doubtful debts) with the following aging analysis as of the balance sheet date:

| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|
| Current | **212,747** | 130,346 |
| Less than 1 month past due | **2,370** | 3,247 |
| 1 to 3 months past due | **623** | 28 |
| More than 3 months past due | **47** | 201 |
| Amounts past due | **3,040** | 3,476 |
| | **215,787** | 133,822 |

## 17 TRADE AND OTHER RECEIVABLES — continued

### (a) Aging analysis — continued

Receivables that were current related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Further details of the Group's credit policy are set out in note 26(a).

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 2(j)).

The movement in the allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **At June 30, 2010 RMB'000** | **At December 31, 2009 RMB'000** |
| At January 1 | **2,551** | 6,148 |
| Net impairment loss reversed | **—** | (17) |
| Uncollectible amounts written off | **—** | (3,580) |
| At June 30/December 31 | **2,551** | 2,551 |

The Group's trade receivables, including amounts due from related parties, of RMB2,551,000 (December 31, 2009: RMB2,551,000) were individually determined to be impaired at June 30, 2010. The individually impaired receivables related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered. During the six months ended June 30, 2010, no specific allowance for doubtful debts was recognized (six months ended June 30, 2009 (unaudited): Nil). The Group does not hold any collateral over these balances.

## 18 DEPOSITS WITH BANKS

| | The Group | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Deposits with banks with original maturities over three months | **200,000** | 191,000 |
| Pledged deposits with banks | **2,601** | 2,595 |
| | **202,601** | 193,595 |

Included in pledged deposits with banks, RMB651,000 was pledged to a bank at June 30, 2010 and December 31, 2009 as security for the long term loan (note 21(b)). The remaining pledged deposits are pledged for use of business credit cards in the PRC.

## 19 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Cash at banks and in hand | **68,201** | 90,194 | **4,811** | 4,162 |

At June 30, 2010, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB61,021,000 (December 31, 2009: RMB85,232,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 19 CASH AND CASH EQUIVALENTS — continued

### (b) Reconciliation of profit before taxation to cash generated from operations:

| | Note | Six months ended June 30, 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|---|---|---|---|
| Profit before taxation | | **178,615** | 145,775 |
| Adjustments for: | | | |
| — Depreciation | 6(c) | **12,008** | 9,839 |
| — Amortization of interests in leasehold land held for own use under operating leases | 6(c) | **390** | 51 |
| — Amortization of intangible assets | 6(c) | **368** | 351 |
| — Reversal of impairment losses on trade receivables | 6(c) | **—** | (100) |
| — Finance costs | 6(a) | **10,518** | 10,887 |
| — Interest income on bank deposits | 5 | **(1,915)** | (4,209) |
| — Loss on disposal of fixed assets | 5 | **6** | — |
| — Equity-settled share-based compensation expenses | 24(c) | **3,440** | 3,873 |
| Change in working capital: | | | |
| — (Increase)/decrease in inventories | | **(12,294)** | 4,653 |
| — Increase in trade and other receivables | | **(90,586)** | (67,392) |
| — Increase/(decrease) in trade and other payables | | **22,571** | (7,657) |
| — Increase/(decrease) in deferred income | | **2,699** | (1,092) |
| Cash generated from operations | | **125,820** | 94,979 |

## 20 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Trade payables | **5,815** | 5,176 | **—** | — |
| Receipts in advance | **757** | 131 | **—** | — |
| Other payables and accruals | **60,312** | 42,412 | **9,937** | — |
| Amounts due to subsidiaries | **—** | — | **23,301** | 25,112 |
| Dividends payable to ordinary shareholders | **235** | 101,945 | **235** | 101,945 |
| Dividend payable to holder of redeemable convertible preference shares | **—** | 2,596 | **—** | 2,596 |
| | **67,119** | 152,260 | **33,473** | 129,653 |

All of the above balances are expected to be settled within one year. Amounts due to subsidiaries are unsecured, interest free and are repayable on demand.

Included in trade and other payables are trade payables with the following aging analysis at the balance date:

| | The Group | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Due within 1 month or on demand | **4,874** | 4,991 |
| Due after 1 month but within 3 months | **671** | 44 |
| Due after 3 months but within 6 months | **270** | 141 |
| | **5,815** | 5,176 |

## 21 SHORT-TERM AND LONG-TERM LOANS

At June 30, 2010, the short-term and long-term loans were repayable as follows:

| | | The Group | |
|---|---|---|---|
| | | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Within 1 year | | | |
| — short-term loan | (a) | **50,000** | — |
| — long-term loans (current portion) | (b) | **456** | 448 |
| | | **50,456** | 448 |
| After 1 year but within 2 years | (b) | **468** | 462 |
| After 2 years but within 5 years | (b) | **1,496** | 1,473 |
| After 5 years | (b) | **2,230** | 2,196 |
| | | **4,194** | 4,131 |
| | | **54,650** | 4,579 |

### (a) Loan from China CITIC Bank

On January 12, 2010, MP Shanghai entered into an one-year loan agreement for RMB50,000,000 with China CITIC Bank Shanghai branch. The loan bears interest at a fixed rate of 4.779% per annum.

### (b) Loan from Shanghai Municipal Financial Administration

On September 9, 2003, MP Shanghai entered into a 15 year long-term loan agreement with Shanghai Municipal Financial Administration ("SMFA") (the "SMFA loan"). The SMFA loan bears a variable interest rate which is determined based on the annual deposit rate as quoted by The People's Bank of China on each September 29, plus 0.3 percent. Interest is paid annually. No actual interest was paid during the six months ended June 30, 2010 (six months ended June 30, 2009 (unaudited): Nil).

The loan is guaranteed by China Construction Bank, and is payable in 11 installments of RMB590,000 on each September 30, commencing from 2008, with a four-year concession period. The last installment is due on August 31, 2018.

## 21 SHORT-TERM AND LONG-TERM LOANS — continued

### (b) Loan from Shanghai Municipal Financial Administration — continued

The SFMA loan is secured by (i) the buildings held for own use with net book value of RMB29,653,000 at June 30, 2010 (December 31, 2009: RMB30,164,000) (note 12(c)); and (ii) deposits with banks of RMB651,000 at June 30, 2010 (December 31, 2009: RMB651,000) (note 18).

The SFMA loan was initially recorded at fair value with reference to the borrowing rates available for bank loans with similar terms and maturities. The SFMA loan is being accreted to face value over the period of the loan using the effective interest method according to the accounting policy as set out in note 2(n). The difference between the fair value and the face value is regarded as a government grant received by the Group, which is being amortized as a government grant income to the consolidated income statement over the period of the loan, using the effective interest method (note 23).

The fair value of the SMFA loan at initial recognition amounted to RMB4,809,000. Besides the actual interest paid, additional interest expense of RMB71,000 and related government grant income of RMB71,000 were recognized in the consolidated income statement for the six months ended June 30, 2010 (six months ended June 30, 2009 (unaudited): RMB78,000).

### (c) Loans from Shanghai Venture Capital Co., Ltd.

On June 23, 2006, MP Shanghai, Shanghai Venture Capital Co., Ltd. (“Shanghai Venture”) and Shanghai Pudong Development Bank (“SPDB”) entered into an entrusted loan agreement, under which MP Shanghai obtained a RMB21,000,000 entrusted loan facility granted from Shanghai Venture through SPDB. Principal of RMB12,000,000 and RMB9,000,000 was drawn down on June 23, 2006 and September 30, 2007 respectively (the “Shanghai Venture loans”). The entrusted loans were interest free and were repayable on June 30, 2008. The Shanghai Venture loans were guaranteed by SPDB which was the second creditor over the land and buildings pledged (note 12(c)). The Shanghai Venture loans were initially recorded at fair value with reference to the borrowing rates available for bank loans with similar terms and maturities. The Shanghai Venture loans were being accreted to face value over the period of the loans, and the difference between the fair value and the face value of the loans was regarded as government grant received by the Group which was amortized as a government grant income over the period of the loans, using the effective interest method.

The fair value of the Shanghai Venture loans were RMB10,656,000 and RMB8,525,000 at initial recognition, i.e. June 23, 2006 and September 30, 2007, respectively.

## 21 SHORT-TERM AND LONG-TERM LOANS — continued

### (c) Loans from Shanghai Venture Capital Co., Ltd. — continued

On June 30, 2008, the Shanghai Venture agreed with the Company to defer the repayment of the loans of RMB9,000,000 and RMB12,000,000 to March 31, 2009 and June 30, 2009 respectively. Since there was a change in expected cash flow, the Group reassessed, based on the revised terms of loans, the fair value of loans which amounted to RMB19,498,000 at June 30, 2008. The excess of the loan carrying amounts over the fair value or RMB1,502,000 was regarded as a government grant, which was amortized over the extended loan period. Additional interest expense of RMB765,000 and related government grant income of RMB765,000 were recognized in the consolidated income statement during the six months ended June 30, 2009 (unaudited). The loans were repaid in full on March 31, 2009 and June 30, 2009 respectively.

## 22 INCOME TAX IN THE BALANCE SHEET

### (a) Current taxation in the balance sheet represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Provision for PRC income tax for the period/year (note) | **28,449** | 54,882 | **—** | 4,754 |
| Provisional tax paid | **(13,577)** | (28,599) | **—** | — |
| | **14,872** | 26,283 | **—** | 4,754 |
| Tax payable/(recoverable) of the subsidiary outside the PRC | **—** | 16 | **—** | — |
| | **14,872** | 26,299 | **—** | 4,754 |

*Note:* On October 21, 2009, MP Shanghai declared to the Company, MP Medical and Leader City dividends in total amounting to RMB238,429,000, of which RMB118,841,000 was attributable to earnings generated since January 1, 2008. Accordingly, the Group and the Company had provided withholding tax liabilities amounting to RMB11,884,000 and RMB4,754,000 respectively which were included in provision for PRC income tax at December 31, 2009. The entire amount was paid in January 2010.

The Company directly holds a 40% equity interest in MP Shanghai and therefore accounted for 40% of the total withholding tax payable. The remaining 60% withholding tax was payable by the intermediate holding companies of MP Shanghai.

## 22 INCOME TAX IN THE BALANCE SHEET — continued

### (b) Deferred tax (assets)/liabilities recognized:

#### (i) The Group

| Deferred tax arising from: | Allowance for doubtful debts RMB'000 | Provision for inventories RMB'000 | Other provisions RMB'000 | Intangible assets RMB'000 | Withholding tax on retained earnings of a PRC subsidiary RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At January 1, 2009 | (956) | (1,802) | (696) | 2,611 | 20,894 | 20,051 |
| Charged/(credited) to the consolidated income statement | 569 | 34 | (3,816) | (159) | 11,537 | 8,165 |
| At December 31, 2009 | (387) | (1,768) | (4,512) | 2,452 | 32,431 | 28,216 |
| At January 1, 2010 | **(387)** | **(1,768)** | **(4,512)** | **2,452** | **32,431** | **28,216** |
| (Credited)/charged to the consolidated income statement | **–** | **(325)** | **1,030** | **(79)** | **–** | **626** |
| At June 30, 2010 | **(387)** | **(2,093)** | **(3,482)** | **2,373** | **32,431** | **28,842** |

#### (ii) The Company

| Deferred tax arising from: | Withholding tax on retained earnings of a PRC subsidiary RMB'000 |
|---|---|
| At January 1, 2009 | 8,358 |
| Charged to the income statement | 4,614 |
| At December 31, 2009 | 12,972 |
| At January 1, 2010 and June 30, 2010 | **12,972** |

## 22 INCOME TAX IN THE BALANCE SHEET — continued

### (b) Deferred tax (assets)/liabilities recognized: — continued

#### (iii) Reconciliation to the balance sheet

| | The Group | | The Company | |
|---|---|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Net deferred tax assets recognized in the balance sheet | **(5,962)** | (6,667) | **—** | — |
| Net deferred tax liabilities recognized in the balance sheet | **34,804** | 34,883 | **12,972** | 12,972 |
| | **28,842** | 28,216 | **12,972** | 12,972 |

### (c) Deferred tax assets/liabilities not recognized

In accordance with the accounting policy set out in note 2(r), the Group did not recognize deferred tax assets in respect of tax losses attributable to certain subsidiaries of RMB10,993,000 at June 30, 2010 (December 31, 2009: RMB4,700,000), as the directors consider it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. All tax losses were incurred by the Group's PRC subsidiaries and will expire in five years after they are incurred. At June 30, 2010, tax losses of RMB66,000, RMB4,634,000 and RMB6,293,000 will expire on December 31, 2013, 2014 and 2015 respectively.

### (d) Deferred tax liabilities not recognized

At June 30, 2010, no deferred tax liability was recognized for temporary differences relating to the undistributed profits of a PRC subsidiary amounted to RMB104,581,000 (December 31, 2009: Nil), as the Group controls the dividend policy of this subsidiary and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

## 23 DEFERRED INCOME

The movements of deferred income are as follows:

**The Group**

| | Government subsidies for research and development projects RMB'000 (note) | Government grant through low-interest loans and interest-free loan RMB'000 (note 21) | Total RMB'000 |
|---|---|---|---|
| At January 1, 2009 | 15,471 | 1,661 | 17,132 |
| Additions during the year | 11,970 | — | 11,970 |
| Government grant recognized as other revenue | (4,299) | (921) | (5,220) |
| At December 31, 2009 | 23,142 | 740 | 23,882 |
| At January 1, 2010 | **23,142** | **740** | **23,882** |
| Additions during the period | **2,800** | **—** | **2,800** |
| Government grant recognized as other revenue | **(30)** | **(71)** | **(101)** |
| At June 30, 2010 | **25,912** | **669** | **26,581** |

| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|
| *Represented by:* | | |
| Current portion | **134** | 142 |
| Non-current portion | **26,447** | 23,740 |
| | **26,581** | 23,882 |

*Note:* Since the time of completion for every project varies with actual circumstances, it is not practicable to determine the current portion of the deferred income derived from these projects reliably. Thus, the entire balance is treated as non-current deferred income.

(Expressed in Renminbi unless otherwise indicated)

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

### (a) The 2004 share option plan

On February 20, 2004, MicroPort Medical (Cayman) Corporation ("MP Cayman"), the intermediate holding company of MP Shanghai prior to the reorganization completed on December 31, 2006 (the "Reorganization"), adopted in the 2004 Stock Option Plan (the "2004 Option Plan") pursuant to which MP Cayman may grant up to 10,261,030 share options to the employees, executives and outside consultants of MP Shanghai.

During 2004 and 2005, MP Cayman granted a total of 10,261,030 share options to the executives, employees and outside consultants at exercise prices ranging from nil to HK$1.1057 and US$0.38 (equivalent to RMB3.14). An aggregate of 8,869,245 share options were vested and exercised during 2006. The grantees became the shareholders of MP Cayman and later became the shareholders of the Company upon the completion of the Reorganization when the ordinary shares of MP Cayman were exchanged for the Company's ordinary shares on a one-for-one basis.

On January 10, 2007 (the "modification date"), the Company agreed to assume the obligation of all outstanding and unvested share options of MP Cayman under the 2004 Option Plan. Each of the 1,391,785 outstanding share options of MP Cayman, including 1,009,760 exercisable upon the consummation of the IPO of MP Cayman and 382,025 share options which were scheduled to vest over an explicit service period, was converted into one share option of the Company with same terms and conditions. The assumption of share options was considered as a modification to the 2004 Option Plan (the "2004 Modified Plan"). As the terms of these share options remained unchanged, the modification did not result in any incremental value in respect of the fair value of the share options.

(i) The terms and conditions of the grants of the 2004 Modified Plan are as follows:

| | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to certain executives, consultants and employees | 1,009,760 | Vested immediately on grant date | 10 years |
| Options granted to two executives (note) | 382,025 | Vested one to two years from the modification date | 8 years and 9 months |
| Total share options granted | 1,391,785 | | |

*Note:* These share options had either been exercised or forfeited during 2007 and 2008.

(Expressed in Renminbi unless otherwise indicated)

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

### (a) The 2004 share option plan — continued

(ii) The number and weighted average exercise prices of share options under the 2004 Modified Plan are as follows:

| | At June 30, 2010 | | At December 31, 2009 | |
|---|---|---|---|---|
| | Weighted average exercise price RMB | Number of options | Weighted average exercise price RMB | Number of options |
| Outstanding at the beginning and the end of the period/year | **1.26** | **1,009,760** | 1.26 | 1,009,760 |
| Exercisable at the end of the period/year | **–** | **–** | – | – |

### (b) The 2006 share option plan

On August 26, 2006, the Company adopted the 2006 Share Incentive Plan (the "2006 Option Plan"), under which the board of directors authorized, at their discretion, the issuance of share options to the executives, employees and outside consultants of MP Shanghai. The 2006 Option Plan is subject to adjustment for a share split, or any future share dividend or other similar change in the ordinary shares for the capital structure. Each option gives the holder the right to subscribe for one ordinary share of the Company and is settled gross in shares.

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

### (b) The 2006 share option plan — continued

(i) The terms, conditions and fair values of the grants under the 2006 Option Plan:

| Options granted to executives on: | Number of options | Fair value RMB'000 | Weighted average fair value per share option RMB | Weighted average exercise price (note) RMB |
|---|---|---|---|---|
| March 2, 2007 | 3,635,362 | 41,372 | 11.38 | 14.94 |
| April 2, 2007 | 145,000 | 1,180 | 8.14 | 21.26 |
| June 14, 2007 | 50,000 | 234 | 4.68 | 23.35 |
| June 25, 2008 | 370,000 | 2,273 | 6.14 | 20.90 |
| December 1, 2008 | 420,000 | 4,020 | 9.57 | 20.98 |
| October 21, 2009 | 600,000 | 8,238 | 13.73 | 20.91 |
| | 5,220,362 | 57,317 | | |

The above share options are vested in installments over an explicit vesting period of four to five years. The vesting condition is service from the grant date to the vesting date of each tranche, and each installment is accounted for as a separate share-based compensation arrangement. The contractual life of options granted to executives is 10 years.

*Note:* The weighted average exercise price for each of the grants on June 14, 2007, June 25, 2008 and December 1, 2008 has been adjusted to reflect the change of exercise price approved on March 9, 2010 (note 24(b)(iii)). The weighted average exercise prices in respect of these grants before the change of exercise price were RMB32.41, RMB29.01 and RMB29.11 respectively.

| Options granted to employees on: | Number of options | Fair value RMB'000 | Weighted average fair value per share option RMB | Weighted average exercise price RMB |
|---|---|---|---|---|
| April 23, 2007 | 750,000 | 6,115 | 8.15 | 21.25 |
| February 6, 2009 | 25,000 | 232 | 9.28 | 29.06 |
| | 775,000 | 6,347 | | |

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

### (b) The 2006 share option plan — continued

(i) The terms, conditions and fair values of the grants under the 2006 Option Plan: — continued

The above share options are granted to 527 employees and are vested in installments over an explicit vesting period of five to six years. The vesting schedule of each employees is different and determined based on the date of employment. The vesting condition is serviced from the grant date to the vesting date of each tranche, and each installment is accounted for as a separate share-based compensation arrangement. The contractual life of options granted to employees is from the employment commencement date to March 1, 2013.

| | Number of options | Fair value RMB'000 | Weighted average fair value per share option RMB | Weighted average exercise price (note) RMB |
|---|---|---|---|---|
| Options granted to consultants on: | | | | |
| May 17, 2007 | 150,000 | 747 | 4.98 | 23.51 |
| June 14, 2007 | 50,000 | 255 | 5.10 | 23.35 |
| | 200,000 | 1,002 | | |
| Total options granted | 6,195,362 | 64,666 | | |

The above share options are vested in installments over an explicit vesting period of four to five years. The vesting condition is service from the grant date to the vesting date of each tranche, and each installment is accounted for as a separate share-based compensation arrangement. The contractual life of options granted to consultants is 10 years.

*Note:* The weighted average exercise price for each of the grants on May 17, 2007 and June 14, 2007 has been adjusted to reflect the change of exercise price approved on March 9, 2010 (note 24(b)(iii)). The weighted average exercise prices in respect of these grants before the change of exercise price were RMB32.63 and RMB23.35 respectively.

(Expressed in Renminbi unless otherwise indicated)

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

### (b) The 2006 share option plan — continued

(ii) The number and weighted average exercise prices of share options under the 2006 Option Plan are as follows:

| | At June 30, 2010 | | At December 31, 2009 | |
|---|---|---|---|---|
| | Weighted average exercise price RMB | Number of options | Weighted average exercise price RMB | Number of options |
| Outstanding at the beginning of the period/year | **27.50** | **2,554,618** | 24.22 | 2,665,141 |
| Granted during the period/year | **–** | **–** | 21.23 | 625,000 |
| Exercised during the period/year | **17.95** | **(403,379)** | 9.12 | (439,741) |
| Forfeited during the period/year | **18.78** | **(10,298)** | 12.09 | (295,782) |
| Outstanding at the end of the period/year (note) | **23.40** | **2,140,941** | 27.50 | 2,554,618 |
| Exercisable at the end of the period/year (note) | **26.66** | **1,017,150** | 31.31 | 838,743 |

*Note:* The weighted average exercise prices for options outstanding and exercisable at June 30, 2010 have been adjusted to reflect the change of exercise price approved on March 9, 2010 (note 24(b)(iii)).

All the share options granted are exercisable by the grantees upon vesting and will expire in April 2016 through January 2017. At June 30, 2010, the weighted average remaining contractual life for the share options granted under the 2006 Option Plan was 7.08 years (December 31, 2009: 7.58 years).

Total non-cash equity-settled share-based compensation expenses in respect of the share options granted under the 2006 Option Plan charged to the consolidated income statement for the six months ended June 30, 2010 were RMB3,440,000 (six months ended June 30, 2009 (unaudited): RMB3,873,000).

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

### (b) The 2006 share option plan — continued

(iii) Modification of the 2006 Option Plan — change of exercise price

On March 9, 2010, the Board approved a modification to the 2006 Option Plan, to reduce the exercise price from US$4.25 to US$3.062 for the share options granted on May 17, 2007, June 14, 2007, July 25, 2008 and December 1, 2008. The reduction of exercise price of the above share options resulted in the an incremental fair value of RMB2,160,000 at the modification date. The incremental fair value will be recognized as equity-settled share-based compensation expenses over the remaining four to five years of the vesting period.

### (c) Equity-settled share-based compensation expenses (net of the impact of reversals resulting from forfeiture of unvested options) recognized in the consolidated income statement during the current and prior periods:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| | | **(unaudited)** |
| Research and development costs | **550** | 620 |
| Sales and marketing costs | **1,548** | 1,743 |
| Administrative expenses | **1,342** | 1,510 |
| | **3,440** | 3,873 |
| *Represented by:* | | |
| Staff costs (note 6(b)) | **3,416** | 3,777 |
| Cost of employing consultants | **24** | 96 |
| | **3,440** | 3,873 |

Share options under the 2004 Modified Plan and the 2006 Option Plan were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. Except for the 1,009,760 vested share options exercisable one year after the consummation of the Company's IPO, there were no market conditions associated with the share options grants.

(Expressed in Renminbi unless otherwise indicated)

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

### (c) Equity-settled share-based compensation expenses (net of the impact of reversals resulting from forfeiture of unvested options) recognized in the consolidated income statement during the current and prior periods: — continued

The share options under the 2004 Modified Plan and the 2006 Option Plan were granted to executives, employees and outside consultants of MP Shanghai. Accordingly, the compensation expense was reflected as non-cash equity-settled share-based compensation expenses with a corresponding increase in the employee share-based compensation capital reserve of the Company.

### (d) Potential dilution effect on shareholdings upon listing

The 2004 Modified Plan and the 2006 Option Plan continue to be valid after the listing of the Company's shares on the Stock Exchange on September 24, 2010. At June 30, 2010, the number of share options outstanding under the 2004 Modified Plan and the 2006 Option Plan is as follows:

| | 2004 Modified Plan Number of options | 2006 Option Plan Number of options | Total Number of options |
|---|---|---|---|
| Outstanding at June 30, 2010 | 1,009,760 | 2,140,941 | 3,150,701 |
| Exercisable at June 30, 2010 | — | 1,017,150 | 1,017,150 |

## 25 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the period are set out below:

| | Note | Share capital RMB'000 Note 25(c)(i) | Share premium RMB'000 Note 25(d)(i) | Contributed surplus RMB'000 Note 25(d)(ii) | Translation reserve RMB'000 Note 25(d)(iii) | Share-based compensation capital reserve RMB'000 Note 25(d)(iv) | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **At January 1, 2009** | | 89 | 6,638 | 91,893 | 8,671 | 10,263 | 296,984 | 414,538 |
| **Changes in equity for the six months ended June 30, 2009: (unaudited)** | | | | | | | | |
| Equity-settled share-based transactions | 24(c) | – | – | – | – | 3,873 | – | 3,873 |
| Expiry of share options | | – | – | – | – | (120) | 120 | – |
| Total comprehensive income for the period | | – | – | – | 11 | – | (14,653) | (14,642) |
| **At June 30, 2009 and July 1, 2009 (unaudited)** | | 89 | 6,638 | 91,893 | 8,682 | 14,016 | 282,451 | 403,769 |
| **Changes in equity for the six months ended December 31, 2009: (unaudited)** | | | | | | | | |
| Dividends approved in respect of the previous year | | – | – | (91,893) | – | – | (123,819) | (215,712) |
| Equity-settled share-based transactions | | – | – | – | – | 968 | – | 968 |
| Shares issued under the share option scheme | | – | 10,260 | – | – | (6,249) | – | 4,011 |
| Expiry of share options | | – | – | – | – | (1,385) | 1,385 | – |
| Total comprehensive income for the period | | – | – | – | 36 | – | 220,448 | 220,484 |
| **At December 31, 2009 and January 1, 2010** | | **89** | **16,898** | **–** | **8,718** | **7,350** | **380,465** | **413,520** |
| **Changes in equity for the six months ended June 30, 2010:** | | | | | | | | |
| Dividends approved in respect of the previous year | 25(b) | **–** | **–** | **–** | **–** | **–** | **(2,370)** | **(2,370)** |
| Equity-settled share-based transactions | 24(c) | **–** | **–** | **–** | **–** | **3,440** | **–** | **3,440** |
| Shares issued under the share option scheme | 25(c)(iii) | **–** | **10,923** | **–** | **–** | **(3,682)** | **–** | **7,241** |
| Total comprehensive income for the period | | **–** | **–** | **–** | **(129)** | **–** | **(18,493)** | **(18,622)** |
| **At June 30, 2010** | | **89** | **27,821** | **–** | **8,589** | **7,108** | **359,602** | **403,209** |

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (b) Dividends

Dividends attributable to the previous financial year, approved and paid to ordinary shareholders of the Company during the interim period

| | Six months ended June 30, 2010 RMB'000 | Six months ended June 30, 2009 RMB'000 (unaudited) |
|---|---|---|
| Dividend in respect of the previous financial year, approved and paid during the period | **2,370** | — |

The above dividends were approved and paid on May 19, 2010.

The directors do not recommend any payment of interim dividends to the ordinary shareholders and the holder of redeemable convertible preference shares of the Company for the six months ended June 30, 2010 (six months ended June 30, 2009: Nil).

On October 21, 2009, the board of directors declared and approved the final dividend attributable to the ordinary shareholders and the holder of redeemable convertible preference shares of the Company in respect of previous financial year amounting to RMB215,712,000 and RMB5,568,000 respectively. These amounts were not recognized as liabilities at June 30, 2009 and December 31, 2008.

On July 9, 2010, the board of directors declared and approved the final dividend attributable to the ordinary shareholders and holder of redeemable convertible preference shares of the Company in respect of previous financial year amounting to RMB171,203,000 and RMB4,888,000 respectively. The amounts were not recognized as liabilities at June 30, 2010 and December 31, 2009.

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (c) Share capital

#### (i) Ordinary shares

| | At June 30, 2010 | | At December 31, 2009 | |
|---|---|---|---|---|
| | No. of shares '000 | Amounts RMB'000 | No. of shares '000 | Amounts RMB'000 |
| *Authorized:* | | | | |
| Ordinary shares of US$0.0001 each | **498,770** | **397** | 498,770 | 397 |
| *Ordinary shares, issued and fully paid:* | | | | |
| At January 1 | **113,504** | **89** | 113,064 | 89 |
| Shares issued under share option schemes | **403** | **—** | 440 | — |
| At June 30/December 31 | **113,907** | **89** | 113,504 | 89 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On September 24, 2010, upon the listing of Company's shares on the Stock Exchange, the Company's ordinary shares and the redeemable convertible preference shares (note 25(c)(ii)) have been subdivided under the 10-for-1 share split into shares with a par value of US$0.00001 each.

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (c) Share capital — continued

(ii) Redeemable convertible preference shares

As part of the Reorganization, the Company issued 1,229,817 redeemable convertible preference shares ("Preference Shares"), par value of US$0.0001, to Otsuka Pharmaceutical Co., Ltd ("Otsuka Pharmaceutical"), the shareholder of MP Shanghai, on August 21, 2006. These Preference Shares were allotted to Otsuka Pharmaceutical to succeed the terms and the features of the preferred shares previously issued by MP Cayman to Otsuka Pharmaceutical. The Preference Shares do not carry the right to vote and contain the following terms:

(1) Dividend rights

The holder of the Preference Shares is entitled to receive a non-cumulative preferential cash dividend (the "Preferential Dividend"), in priority to other classes of shareholders, when a dividend is declared and payable to the ordinary shareholders of the Company in each financial year, subject to the following scenarios:

When the dividends declared and payable by the Company for a year are equal to or less than US$994,800, the holder of Preference Shares is entitled to dividend equal to 50% of such distribution.

When the distribution is greater than US$994,800, the holder of the Preference Shares is entitled to dividend of (i) US$497,400, plus (ii) pro-rata dividends based on the number of ordinary shares into which the Preference Shares are convertible (immediately prior to such distribution) for the remaining dividends in excess of US$994,800.

(2) Cash redemption option and conversion feature

At any time following the earlier of (i) February 23, 2008, or (ii) the infringement of any rights attaching to the Preference Shares or of the holder thereof in material respect as a result of the Company, the holder of Preference Shares may, at its option, either (i) redeem all the Preference Shares at a proper price to be agreed by the Company and the holder of the Preference Shares ("Cash Redemption Option") or (ii) to convert all the Preference Shares into ordinary shares of the Company ("Voluntary Conversion Option"), in either case, by giving not less than 30 days notice in writing to the Company.

Upon voluntary conversion by the holder of Preference Shares, the 1,229,817 Preference Shares in issue shall be converted so as to achieve (after their conversion to ordinary shares) such number of ordinary shares that represent 2% of the total number of issued ordinary shares of the Company (as enlarged by the issue of the ordinary shares) assuming that all securities convertible into equity shares in the Company have been fully converted and any option or other right to acquire shares in the Company has been exercised in full.

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (c) Share capital — continued

(ii) Redeemable convertible preference shares — continued

(3) Automatic conversion feature

Each Preference Share shall be automatically converted into one ordinary share which shall rank para passu in all respects with all other ordinary shares on the later of (i) the date of the pricing of the Company's IPO in the United States (qualified IPO) and (ii) both (a) execution and delivery of an underwriting agreement by all the parties thereto and (b) the closing or consummation of such an agreement for the qualified IPO (the "Automatic Conversion"). On March 9, 2010, the Company's Articles of Association were amended to extend the definition of a qualified IPO in (i) above to include an IPO in a stock exchange in Hong Kong.

(4) Liquidation preference

On a distribution of assets of the Company on a winding up or other return of capital (other than on a redemption or repurchase of shares), the holders of the Preference Shares are first entitled to an amount up to the aggregate purchase consideration paid for the Preference Shares and all arrears (if any) of the Preferential Dividend and interest at the rate of 0.05% per day thereon, and then to participate in the distribution of any surplus of assets of the Company pro-rata with the holders of the ordinary shares based on the number of ordinary shares into which the Preference Shares are convertible (immediately prior to such distribution).

The Preference Shares were recognized as financial liabilities stated at fair value through profit or loss in accordance with the accounting policy as set out in note 2(o) when the Preference Shares were issued as part of the Group's Reorganization. The fair value of the Preference Shares was estimated primarily based on the Group's estimated business enterprise value. The Preference Shares are remeasured at each balance sheet date and changes in fair value are charged to the income statement.

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (c) Share capital — continued

(iii) Shares issued under the share option schemes

The estimate of the fair value of the Preference Shares is measured based on the Black-Scholes model.

*Fair value of Preference Shares and assumptions*

| | |
|---|---|
| Average risk-free rate | 0.62% to 1.35% |
| Volatility | 55.72% to 56.61% |
| Expected dividend yield | 1.17% |

The estimated fair value of the Preference Shares at June 30, 2010 was RMB90,501,000 (December 31, 2009: RMB82,262,000).

Dividends declared and payable to the holder of Preference Shares are charged as finance costs in the income statement.

Shares issued under the share option schemes during the periods presented are summarized as follows:

| | | | Credited to/(transferred from) | | |
|---|---|---|---|---|---|
| | No. of shares exercised | Consideration RMB'000 | Share capital RMB'000 | Share premium RMB'000 | Share-based compensation capital reserve RMB'000 |
| Options exercised in: | | | | | |
| January 2010 | 1,320 | 25 | – | 36 | (11) |
| February 2010 | 3,218 | 60 | – | 86 | (26) |
| March 2010 | 8,635 | 162 | – | 232 | (70) |
| April 2010 | 88,322 | 1,817 | – | 2,609 | (792) |
| May 2010 | 172,271 | 2,594 | – | 4,508 | (1,914) |
| June 2010 | 129,613 | 2,583 | – | 3,452 | (869) |
| For the six months ended June 30, 2010 | 403,379 | 7,241 | – | 10,923 | (3,682) |

No options were exercised during six months ended June 30, 2009.

(Expressed in Renminbi unless otherwise indicated)

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (c) Share capital — continued

(iv) Terms of unexpired and unexercised share options at balance sheet date

| Exercise period | Exercise price (note) RMB | At June 30, 2010 Number of options | At December 31, 2009 Number of options |
|---|---|---|---|
| **2004 Modified Plan** | | | |
| ***Executives, employees and consultants*** | | | |
| To be exercised upon a successful IPO | 0.60 to 1.94 | **1,009,760** | 1,009,760 |
| **2006 Option Plan** | | | |
| ***Executives*** | | | |
| April 26, 2007 to January 24, 2017 | 9.81 to 21.30 | **330,572** | 419,664 |
| April 1, 2008 to April 1, 2017 | 21.26 | **4,000** | 31,000 |
| June 14, 2007 to September 22, 2017 | 23.35 | **50,000** | 50,000 |
| July 25, 2008 to July 24, 2018 | 20.90 | **200,000** | 270,000 |
| June 23, 2009 to December 31, 2018 | 20.98 | **420,000** | 420,000 |
| December 31, 2010 to October 20, 2019 | 20.91 | **600,000** | 600,000 |
| ***Employees*** | | | |
| April 23, 2007 to December 31, 2013 | 21.25 | **361,369** | 588,954 |
| February 6, 2010 to February 5, 2011 | 29.06 | **25,000** | 25,000 |
| ***Consultants*** | | | |
| May 16, 2008 to June 30, 2017 | 23.51 | **100,000** | 100,000 |
| To be exercised upon a successful IPO | 23.35 | **50,000** | 50,000 |
| | | **2,140,941** | 2,554,618 |
| | | **3,150,701** | 3,564,378 |

*Note:* The weighted average exercise prices for options outstanding and exercisable at June 30, 2010 have been adjusted to reflect the change of exercise price approved on March 9, 2010 (note 24(b)(iii)).

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the interim financial statements.

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (d) Nature and purchase of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Contributed surplus

The contributed surplus of the Company represents the historical net book value of the net assets of MP Shanghai at December 31, 2006, when the 100% equity interests of MP Medical, Leader City, MP Shanghai and MP B.V. were transferred to the Company under the Reorganization, less the nominal amount of the share capital of the Company and the initial fair value recognized in respect of the Preference Shares issued under the Reorganization. The Reorganization involved a series of equity and shares swap transactions under common control. The Company became the holding company of the Group upon the completion of the Reorganization in December 2006.

Under the Companies Law of the Cayman Islands, the funds in the contributed surplus account of the Company are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(iii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the interim financial statements of operations outside the PRC. The reserve is dealt with in accordance with the accounting policies set out in note 2(u).

(iv) Share-based compensation capital reserve

Share-based compensation capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to executives, employees and outside consultants of the Group in accordance with the accounting policy adopted for share-based payments in note 2(q)(ii).

## 25 CAPITAL, RESERVES AND DIVIDENDS — continued

### (d) Nature and purchase of reserves — continued

(v) Statutory general reserve

The PRC subsidiaries of the Company are required to make appropriation of its retained earnings to statutory general reserve in accordance to the PRC accounting rules and regulations, in which to transfer 10% of its net profit, as until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilized to offset prior year's losses or converted into paid up capital.

The statutory general reserve represented MP Shanghai's statutory general reserve which had reached 50% of MP Shanghai's share capital.

### (e) Distributability of reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company at June 30, 2010 was RMB387,423,000 (December 31, 2009: RMB397,363,000).

On July 9, 2010, the directors approved a dividend in respect of the Company's earnings for the financial year ended December 31, 2009 amounting to RMB176,091,000 (note 25(b)). This dividend has not been recognized as a liability at June 30, 2010 and December 31, 2009.

### (f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company defines "capital" as including all components of equity, short-term and long-term loans and preference share capital, less unaccrued proposed dividends. On this basis, the amount of capital employed at June 30, 2010 was RMB512,590,000 (December 31, 2009: RMB298,443,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, cash at banks and deposits with banks. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay 50% deposits upfront and the remaining trade receivables are due within 30–180 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

In respect of cash at banks and deposits with banks, the Group only places deposits with financial institutions, which management believes are of high credit rating.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At June 30, 2010, the Group has certain concentration credit risk that 30% (December 31, 2009: 22%) of the total trade and other receivables were due from the Group's largest customer and 64% (December 31, 2009: 49%) of the total trade and other receivables were due from Group's top five customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheets after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 17.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure each subsidiary maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

#### (i) The Group

| | At June 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash outflow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Loans | **54,650** | **55,508** | **50,703** | **688** | **1,974** | **2,143** |
| Trade and other payables | **67,119** | **67,119** | **67,119** | **—** | **—** | **—** |
| | **121,769** | **122,627** | **117,822** | **688** | **1,974** | **2,143** |

| | At December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash outflow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Loans | 4,579 | 5,864 | 711 | 696 | 1,996 | 2,461 |
| Trade and other payables | 152,260 | 152,260 | 152,260 | — | — | — |
| | 156,839 | 158,124 | 152,971 | 696 | 1,996 | 2,461 |

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (b) Liquidity risk — continued

#### (ii) The Company

| | At June 30, 2010 | | |
|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash outflow RMB'000 | Total RMB'000 |
| Other payables | **33,473** | **33,473** | **33,473** |

| | At December 31, 2009 | | |
|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash outflow RMB'000 | Total RMB'000 |
| Other payables | 129,653 | 129,653 | 129,653 |

The above analyses do not include the balances of redeemable convertible preference shares which are stated at fair value of RMB90,501,000 at June 30, 2010 (December 31, 2009: RMB82,262,000). The redeemable convertible preference shares have been redeemable at the option of the holder since February 23, 2008 and their fair values are not stated contractual amounts which are subject to mutual agreement between the Company and the holder of the redeemable convertible preference shares.

### (c) Interest rate risk

The Group's interest rate risk arises primarily from cash at bank, deposits with banks, short term and long term borrowings issued at variable rates and fixed rates that expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The Group's interest rate profile as monitored by management is set out in (i) below. The Company did not have any borrowings during the current and prior periods, thus has no exposure to interest rate risk.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (c) Interest rate risk — continued

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and deposits at the balance sheet date:

| | At June 30, 2010 Effective interest rate | Amount RMB'000 | At December 31, 2009 Effective interest rate | Amount RMB'000 |
|---|---|---|---|---|
| *Fixed rate instruments* | | | | |
| Deposits with banks with original maturities over three months | **1.91%** | **200,000** | 3.79% | 191,000 |
| Fixed rate borrowings | **4.78%** | **(50,000)** | — | — |
| | | **150,000** | | 191,000 |
| *Variable rate instruments* | | | | |
| Cash at banks and in hand | **0.36%** | **68,201** | 0.67% | 90,194 |
| Pledged deposits with banks | **0.36%** | **2,601** | 0.67% | 2,595 |
| Variable rate borrowings | **3.10%** | **(4,650)** | 3.10% | (4,579) |
| | | **66,152** | | 88,210 |
| Fixed rate borrowings as a percentage of total borrowings | | **91.5%** | | 0.0% |

#### (ii) Sensitivity analysis

At June 30, 2010, it is estimated that a general increase/decrease of 100 basis points in annual interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the six-month period and retained earnings by approximately RMB280,000 (six months ended December 31, 2009: RMB360,000).

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (c) Interest rate risk — continued

#### (ii) Sensitivity analysis — continued

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the period (and retained earnings) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at June 30, 2010, the impact on the Group's profit for the period (and retained earnings) is estimated as an semi-annualized impact on interest expense or income of such a change in interest rates. The analysis at December 31, 2009 has been performed on the same basis.

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and United States dollars ("US$").

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (d) Currency risk — continued

#### (i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB translated using the spot rate at the balance sheet date. Differences resulting from the translation of the interim financial statements of foreign operations into the Group's presentation currency are excluded.

*The Group*

| | Exposure to foreign currencies (expressed in RMB) | | | |
|---|---|---|---|---|
| | At June 30, 2010 | | At December 31, 2009 | |
| | US$ | Euros | US$ | Euros |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade and other receivables | **20,865** | **1,820** | 32,006 | 3,101 |
| Cash and cash equivalents | **7,415** | **225** | 816 | 286 |
| Trade and other payables | **(2,195)** | **(215)** | (5,873) | (199) |
| Amounts due from/(to) group companies | **18,440** | **34** | 15,607 | (272) |
| Amounts due from related parties | **10,779** | **—** | 14,701 | — |
| Net exposure arising from recognized assets and liabilities | **55,304** | **1,864** | 57,257 | 2,916 |

*The Company*

The functional currency of the Company is US$. The Company did not have material financial assets or liabilities that are denominated in a currency other than its functional currency and accordingly the Company has no significant exposure to foreign currency risk at the balance sheet date.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (d) Currency risk — continued

#### (ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit for the period (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

| | At June 30, 2010 | | At December 31, 2009 | |
|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit for the period and retained earnings RMB'000 | Increase/ (decrease) in foreign exchange rates | Effect on profit for the period and retained earnings RMB'000 |
| US$ (against RMB) | **6%** | **2,820** | 5% | 2,433 |
| | **(6)%** | **(2,820)** | (5)% | (2,433) |
| Euros (against RMB) | **2%** | **22** | 2% | (7) |
| | **(2)%** | **(22)** | (2)% | 7 |
| Euros (against US$) | **2%** | **18** | 2% | 50 |
| | **(2)%** | **(18)** | (2)% | (50) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit for the period and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the interim financial statements of foreign operations into the Group's presentation currency. The analysis at December 31, 2009 has been performed on the same basis.

## 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

### (e) Fair values

The three levels of the fair value hierarchy defined in HKFRS 7, "*Financial Instruments: Disclosures*" are defined as follows:

— Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

— Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

— Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

As disclosed in note 25(c)(ii) to these interim financial statements, the Company's Preference Shares are measured at fair value at each balance sheet date. The fair value was determined based on Level 3 input which was primarily based on the business enterprise value of the Group and adjusted for preferential rights of the Preference Shares using valuation techniques in which any significant input is not based on observable market data.

Any change in the fair value of the Preference Shares is recorded as finance costs in the income statement. The estimated fair value of the Preference Shares at June 30, 2010 was RMB90,501,000 (December 31, 2009: RMB82,262,000). The change in fair values during the six months ended June 30, 2010 of RMB8,239,000 (six months ended June 30, 2009 (unaudited): RMB9,877,000) represents the fair value adjustment to the Preference Shares which was charged to finance costs.

All other financial instruments are carried at cost or amortized costs at amounts not materially different from their fair values at June 30, 2010 and December 31, 2009.

## 27 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at June 30, 2010 not provided for in the interim financial statements are as follows:

| | The Group | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Contracted for | **12,278** | 24,271 |
| Authorized but not contracted for | **167,944** | 182,628 |
| | **180,222** | 206,899 |

The Company had no capital commitments at June 30, 2010 and December 31, 2010.

The capital commitments authorized but not contracted for at June 30, 2010 mainly relate to the construction of a new office complex and manufacturing facilities in Shanghai. The construction project is expected to be completed in 2012.

### (b) Operating lease commitments

The total future minimum lease payments for properties under non-cancellable operating leases are payable as follows:

| | The Group | |
|---|---|---|
| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
| Within one year | **972** | 1,005 |
| After one year but within five years | **486** | 996 |
| | **1,458** | 2,001 |

The Company had no operating lease commitments at June 30, 2010 and December 31, 2010.

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, at the end of which period all terms are negotiated. None of the leases includes contingent rentals as at June 30, 2010 and December 31, 2009.

## 28 RELATED PARTY TRANSACTIONS

### (a) Name and relationship with related parties

During the periods presented, transactions with the following parties were considered to be related parties:

| Name of party | Relationship |
|---|---|
| JIMRO Co., Ltd ("JIMRO") | Subsidiary of Otsuka Pharmaceutical, a shareholder of the Company |
| Thai Otsuka Pharmaceutical Co., Ltd ("Thai Otsuka") | Subsidiary of Otsuka Pharmaceutical |
| Otsuka (Philippines) Pharmaceutical, Inc ("Otsuka Philippines") | Subsidiary of Otsuka Pharmaceutical |
| P.T. Otsuka Indonesia ("Otsuka Indonesia") | Subsidiary of Otsuka Pharmaceutical |
| Otsuka Pakistan Ltd ("Otsuka Pakistan") | Subsidiary of Otsuka Pharmaceutical |

### (b) Significant related party transactions

Particulars of significant related party transactions during the current and prior periods are as follows:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| | | **(unaudited)** |
| *Recurring transactions:* | | |
| Sales to JIMRO | **1,257** | 1,836 |
| Sales to Thai Otsuka | **5,616** | 3,449 |
| Sales to Otsuka Philippines | **1,887** | 2,112 |
| Sales to Otsuka Indonesia | **2,064** | 2,434 |
| Sales to Otsuka Pakistan | **3,694** | 2,158 |
| | **14,518** | 11,989 |

## 28 RELATED PARTY TRANSACTIONS — continued

### (c) Amounts due from related parties

| | At June 30, 2010 RMB'000 | At December 31, 2009 RMB'000 |
|---|---|---|
| *Trade receivables from:* | | |
| Sales to JIMRO | **394** | 1,241 |
| Sales to Thai Otsuka | **5,586** | 9,859 |
| Sales to Otsuka Philippines | **1,110** | 618 |
| Sales to Otsuka Indonesia | **917** | 2,077 |
| Sales to Otsuka Pakistan | **2,772** | 906 |
| | **10,779** | 14,701 |

Amounts due from related parties are unsecured, interest free and expected to be recovered within one year.

### (d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | Six months ended June 30, | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| Salaries and other benefits | **2,493** | 2,424 |
| Retirement scheme contributions | **69** | 62 |
| Discretionary bonuses | **4,406** | 3,850 |
| Share-based compensation | **978** | 2,364 |
| | **7,946** | 8,700 |

Total remuneration was included in staff costs (note 6(b)).

## 29 ACCOUNTING ESTIMATES AND JUDGEMENTS

### Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the interim financial statements.

#### (a) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realizable value.

#### (b) Impairment of trade receivables

The management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade receivables at the balance sheet date.

#### (c) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

#### (d) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are recognized for deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(Expressed in Renminbi unless otherwise indicated)

## 30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDING DECEMBER 31, 2010

Up to the date of issue of this report, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ending December 31, 2010 and which are relevant to the Group's operations but have not been adopted in the interim financial statements:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Improvements to HKFRSs 2010 | July 1, 2010 or January 1, 2011 |
| HKFRS 9, *Financial instruments* | January 1, 2013 |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

## 31 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At June 30, 2010, the directors consider the immediate parent and ultimate controlling party of the Group to be Otsuka Pharmaceutical and Otsuka Holdings Co., Ltd., which are both incorporated under the laws of Japan. Both of them do not produce financial statements available for public use.

## 32 NON-ADJUSTING POST BALANCE SHEET EVENTS

The following significant events took place subsequent to June 30, 2010:

**(1)** On July 8, 2010, July 9, 2010 and August 9, 2010, the Board approved the grant of 123,094 share options to employees, 2,864,873 share options to executives and 500,000 share options to executives, respectively, under the 2006 Option Plan. It was proposed that the share options to be granted to subscribe for shares at an exercise price of US$3.062 per share. The above share options will vest in installments over a four-year vesting period. The vesting period commenced from the respective grant date and the contractual life of options is 10 years.

**(2)** On July 9, 2010, the Board approved the final dividend attributable to the ordinary shareholders and the holder of redeemable convertible preference shares of the Company in respect of the Company's earnings for the financial year ended December 31, 2009 amounting to RMB171,203,000 and RMB4,888,000, respectively. These amounts were not recognized as liabilities at June 30, 2010.

**(3)** On September 3, 2010, the Board approved a 10-for-1 share split of the Company's ordinary shares and the redeemable convertible preference shares conditional on the completion of the global offering, which has taken place on September 24, 2010. The historical shares, options and per share data included in these interim financial statements have not been adjusted, except for the earnings per share data in note 11 which has been adjusted retrospectively as if the share split had occurred at the beginning of the periods presented.

**(4)** On September 24, 2010, the outstanding 12,298,170 (after the 10-for-1 share split mentioned in note 32(3)) redeemable convertible preference shares were converted to 12,298,170 ordinary shares of the Company. The carrying amount of the redeemable convertible preference shares at September 24, 2010 was credited to equity upon conversion.

**(5)** On September 24, 2010, the Company was successfully listed on the Stock Exchange following the completion of its initial public offering of 252,740,000 shares to the investors. On September 27, 2010, further 37,911,000 shares were issued pursuant to the over-allotment option.