

The following is the text of a report for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central, Hong Kong

September 13, 2010

The Directors
MicroPort Scientific Corporation

Credit Suisse (Hong Kong) Limited
Piper Jaffray Asia Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to MicroPort Scientific Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group, for each of the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 (the "Track Record Period"), and the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2007, 2008 and 2009 and March 31, 2010, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated September 13, 2010 (the "Prospectus").

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. Pursuant to a group reorganization in December 2006 (the "Reorganization") as detailed in the section headed "Company History and Reorganization" to this Prospectus, the Company became the holding company of the Group.

As at the date of this report, no audited financial statements have been prepared for MicroPort Medical Limited and Leader City Limited as they are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All subsidiaries of the Company have adopted December 31 as their financial year end date. Details of the Company's subsidiaries that were subject to audit during the Track Record Period and the names of the respective auditors are set out in note 15 of Section B. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

The directors of the Company have prepared consolidated financial statements of the Group for the Track Record Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 were audited by us in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements with no adjustments made thereto and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is 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.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to March 31, 2010.

Opinion

In our opinion, for the purpose of this report, the Financial Information, in accordance with the basis of preparation and the accounting policies set out in Section B below, gives a true and fair view of the Group's consolidated results and cash flows for the Track Record Period, and the state of affairs of the Group and the Company as at December 31, 2007, 2008 and 2009 and March 31, 2010.

Corresponding financial information

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising 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 three months ended March 31, 2009, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A Financial Information

1 Consolidated income statements

	Section B Note	Years ended December 31,			Three months ended March 31,	
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Revenue	3 and 4	421,263	485,242	560,726	137,570	176,727
Cost of sales		(60,171)	(87,703)	(78,037)	(17,290)	(22,684)
Gross profit		361,092	397,539	482,689	120,280	154,043
Other revenue	5	16,637	20,559	22,519	3,059	1,119
Other net (loss) / income	5	(2,122)	(3,231)	(1,867)	363	665
Research and development costs		(54,192)	(59,391)	(86,384)	(15,090)	(25,310)
Sales and marketing costs		(81,350)	(66,244)	(98,177)	(18,851)	(19,545)
Administrative expenses		(54,946)	(48,068)	(50,850)	(9,952)	(13,184)
Other operating costs		(27,264)	(3,036)	(1,022)	(383)	(100)
Profit from operations		157,855	238,128	266,908	79,426	97,688
Finance costs	6(a)	(44,200)	(9,875)	(17,153)	(5,827)	(2,990)
Profit before taxation	6	113,655	228,253	249,755	73,599	94,698
Income tax	7(a)	(11,424)	(49,405)	(63,382)	(19,212)	(14,643)
Profit for the year/period		<u>102,231</u>	<u>178,848</u>	<u>186,373</u>	<u>54,387</u>	<u>80,055</u>
Earnings per share	11					
Basic (RMB)		0.90	1.58	1.65	0.48	0.71
Diluted (RMB)		<u>0.90</u>	<u>1.58</u>	<u>1.63</u>	<u>0.48</u>	<u>0.70</u>

The accompanying notes form part of the Financial Information.

2 Consolidated statements of comprehensive income

	Section B Note	Years ended December 31,			Three months ended March 31,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period		102,231	178,848	186,373	54,387	80,055
Other comprehensive income for the year/period						
Exchange differences of translation of financial statements of entities outside the PRC, net of nil tax		6,029	3,820	577	(595)	(1,132)
Total comprehensive income for the year/period		108,260	182,668	186,950	53,792	78,923

The accompanying notes form part of the Financial Information.

3 Consolidated balance sheets

	Section B Note	At December 31,			At March 31,
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets					
Fixed assets					
— Property, plant and equipment	12	92,630	129,088	156,802	160,764
— Interests in leasehold land held for own use under operating leases	12	4,619	4,517	37,548	37,353
		97,249	133,605	194,350	198,117
Intangible assets	13	—	10,442	10,023	9,839
Prepayments for fixed assets		27,432	38,928	14,412	29,742
Goodwill	14	—	2,105	2,105	2,105
Deferred tax assets	22(b)	766	3,454	6,667	6,763
		125,447	188,534	227,557	246,566
Current assets					
Inventories	16	47,714	48,476	56,695	64,698
Trade and other receivables	17	137,512	114,636	143,817	196,517
Income tax recoverable	22(a)	—	358	—	—
Deposits with banks	18	2,940	207,569	193,595	177,595
Cash and cash equivalents	19	309,852	66,461	90,194	101,983
		498,018	437,500	484,301	540,793
Current liabilities					
Trade and other payables	20	156,814	68,945	152,260	54,990
Short term loans	21	8,681	20,235	—	100,000
Long term loans (current portion)	21	12,070	434	448	452
Redeemable convertible preference shares	25(c)(ii)	70,070	72,078	82,262	83,976
Income tax payable	22(a)	1,662	11,523	26,299	16,130
Deferred income	23	839	920	142	138
		250,136	174,135	261,411	255,686
Net current assets		247,882	263,365	222,890	285,107
Total assets less current liabilities		373,329	451,899	450,447	531,673
Non-current liabilities					
Long term loans	21	5,013	4,579	4,131	4,162
Deferred income	23	7,377	16,212	23,740	23,758
Deferred tax liabilities	22(b)	—	23,505	34,883	34,843
		12,390	44,296	62,754	62,763
NET ASSETS		360,939	407,603	387,693	468,910
CAPITAL AND RESERVES					
Share capital	25	89	89	89	89
Reserves		360,850	407,514	387,604	468,821
TOTAL EQUITY		360,939	407,603	387,693	468,910

The accompanying notes form part of the Financial Information.

4 Company balance sheets

	Section B Note	At December 31,			At March 31,
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets					
Investments in subsidiaries	15	519,451	519,725	524,566	526,613
Current assets					
Amounts due from subsidiaries	17	117,807	3	114,433	—
Cash and cash equivalents	19	779	11,713	4,162	8,623
		118,586	11,716	118,595	8,623
Current liabilities					
Other payables	20	143,662	36,467	129,653	23,901
Redeemable convertible preference shares	25(c)(ii)	70,070	72,078	82,262	83,976
Income tax payable	22(a)	—	—	4,754	—
		213,732	108,545	216,669	107,877
Net current liabilities		(95,146)	(96,829)	(98,074)	(99,254)
Total assets less current liabilities		424,305	422,896	426,492	427,359
Non-current liabilities					
Deferred tax liabilities	22(b)	—	8,358	12,972	12,972
NET ASSETS		424,305	414,538	413,520	414,387
CAPITAL AND RESERVES					
Share capital	25(a)	89	89	89	89
Reserves		424,216	414,449	413,431	414,298
TOTAL EQUITY		424,305	414,538	413,520	414,387

The accompanying notes form part of the Financial Information.

5 Consolidated statements of changes in equity

Section B Note	Attributable to equity shareholders of the Company							Total RMB'000
	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		Statutory general reserve RMB'000 Note 25(d)(v)	
					capital reserve	reserve		
At January 1, 2007	90	1	454,654	1,720	—	—	64	456,529
Shares repurchased during the year	(1)	—	—	—	—	—	—	(1)
Dividends approved in respect of the previous year	—	—	(226,129)	—	—	—	—	(226,129)
Equity-settled share-based transactions	—	—	—	—	21,614	—	—	21,614
Shares issued under the share option scheme	—	3,788	—	—	(3,122)	—	—	666
Total comprehensive income for the year	—	—	—	6,029	—	—	102,231	108,260
Appropriation of reserve	—	—	—	—	—	13,828	(13,828)	—
At December 31, 2007 and January 1, 2008	89	3,789	228,525	7,749	18,492	13,828	88,467	360,939
Dividends approved in respect of the previous year	—	—	(136,632)	—	—	—	—	(136,632)
Equity-settled share-based transactions	—	—	—	—	274	—	—	274
Shares issued under the share option scheme	—	2,849	—	—	(2,495)	—	—	354
Expiry of share options	—	—	—	—	(6,008)	—	6,008	—
Total comprehensive income for the year	—	—	—	3,820	—	—	178,848	182,668
At December 31, 2008 and January 1, 2009	89	6,638	91,893	11,569	10,263	13,828	273,323	407,603
Dividends approved in respect of the previous year	—	—	(91,893)	—	—	—	(123,819)	(215,712)
Equity-settled share-based transactions	—	—	—	—	4,841	—	—	4,841
Shares issued under the share option scheme	—	10,260	—	—	(6,249)	—	—	4,011
Expiry of share options	—	—	—	—	(1,505)	—	1,505	—
Total comprehensive income for the year	—	—	—	577	—	—	186,373	186,950
At December 31, 2009 and January 1, 2010	89	16,898	—	12,146	7,350	13,828	337,382	387,693
Equity-settled share-based transactions	—	—	—	—	2,047	—	—	2,047
Shares issued under the share option scheme	—	354	—	—	(107)	—	—	247
Total comprehensive income for the period	—	—	—	(1,132)	—	—	80,055	78,923
At March 31, 2010	89	17,252	—	11,014	9,290	13,828	417,437	468,910
(Unaudited)								
At January 1, 2009	89	6,638	91,893	11,569	10,263	13,828	273,323	407,603
Equity-settled share-based transactions	—	—	—	—	2,215	—	—	2,215
Expiry of share options	—	—	—	—	(120)	—	120	—
Total comprehensive income for the period	—	—	—	(595)	—	—	54,387	53,792
At March 31, 2009	89	6,638	91,893	10,974	12,358	13,828	327,830	463,610

The accompanying notes form part of the Financial Information.

6 Consolidated statements of cash flows

	Section B Note	Years ended December 31,			Three months ended March 31,	
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Operating activities						
Cash generated from operations	19(b)	163,582	298,951	243,000	42,894	55,611
Tax paid:						
— PRC income tax paid		(11,747)	(19,935)	(40,423)	(3,305)	(13,048)
— PRC withholding tax paid		—	—	—	—	(11,884)
— Non-PRC income tax (paid)/ refunded		(1,770)	(1,839)	340	—	(16)
Net cash generated from operating activities		<u>150,065</u>	<u>277,177</u>	<u>202,917</u>	<u>39,589</u>	<u>30,663</u>
Investing activities						
Payment for the purchase of fixed assets		(36,695)	(64,216)	(53,884)	(4,252)	(30,220)
Proceeds from sale of fixed assets . . .		36	3	610	—	—
Payment for the purchase of intangible assets		—	—	(300)	—	—
Placement of deposits with banks with original maturities over three months		—	(320,084)	(241,000)	(21,000)	(15,000)
Uplift of deposits with banks with original maturities over three months		—	115,000	255,084	—	31,000
(Increase)/decrease in pledged deposits		(229)	455	(110)	(5,919)	—
Interest received		5,932	5,082	9,160	107	694
Payments for the acquisition of a subsidiary	29	—	(4,494)	(3,529)	—	—
Net cash used in investing activities		<u>(30,956)</u>	<u>(268,254)</u>	<u>(33,969)</u>	<u>(31,064)</u>	<u>(13,526)</u>
Financing activities						
Payment for repurchase of own shares	25(c)(i)	(1)	—	—	—	—
Proceeds from new loans		9,000	—	—	—	100,000
Repayments of loans		—	(590)	(21,590)	(9,000)	—
Proceeds from shares issued under the share option scheme	25(c)(iii)	666	354	4,011	—	247
Interest paid		(682)	(1,193)	(480)	(96)	(1,240)
Dividends paid to ordinary shareholders		(116,915)	(235,421)	(124,191)	(10,188)	(101,709)
Dividends paid to holder of redeemable convertible preference shares		(5,003)	(14,613)	(2,972)	—	(2,596)
Net cash used in financing activities		<u>(112,935)</u>	<u>(251,463)</u>	<u>(145,222)</u>	<u>(19,284)</u>	<u>(5,298)</u>
Net increase/(decrease) in cash and cash equivalents		<u>6,174</u>	<u>(242,540)</u>	<u>23,726</u>	<u>(10,759)</u>	<u>11,839</u>
Cash and cash equivalents at beginning of the year/period		<u>303,699</u>	<u>309,852</u>	<u>66,461</u>	<u>66,461</u>	<u>90,194</u>
Effect of foreign exchange rate changes		<u>(21)</u>	<u>(851)</u>	<u>7</u>	<u>(24)</u>	<u>(50)</u>
Cash and cash equivalents at end of the year/period	19(a)	<u>309,852</u>	<u>66,461</u>	<u>90,194</u>	<u>55,678</u>	<u>101,983</u>

The accompanying notes form part of the Financial Information.

B Notes to the Financial Information**1 General information**

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. Pursuant to a group reorganization completed in December 2006, the Company became the holding company of the Group. 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.

2 Significant accounting policies**(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption during the Track Record Period. For the purpose of preparing the Financial Information, the Group has adopted the new and revised HKFRSs that are first effective for the accounting period beginning on January 1, 2010 throughout the Track Record Period, except for HKFRS 3 (Revised), *Business Combinations* and the amendments to HKAS 27, *Consolidated and separate financial statements*, which are adopted for the accounting period beginning on January 1, 2010 and are applied prospectively. The adoption of HKFRS 3 (Revised) and amendments to HKAS 27 have had no material impact on the Group's Financial Information. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2010 are set out in note 31.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries and has been prepared on a consolidated basis.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Group's major operating subsidiaries, rounded to the nearest thousand. The Financial Information is 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 this Financial Information.

(d) Use of estimates and judgment

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgments, 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 judgments 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.

Judgments made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 30.

(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 Information 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 Information. 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 (see 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.

(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.

(iii) Depreciation

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

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
- 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.

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.
- 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.

(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 asset, 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.

- 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 assets' 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 year 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.

(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.

(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 year 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 with 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 year 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.

(r) ***Income tax***

Income tax for the year 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 business combinations, or 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 year, 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.

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 profit 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).

(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 expenditures 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 statements 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. For direct sales to hospitals, the transfer of ownership occurs at the time when the medical device has been implanted into the end user or used during a surgical procedure.

(ii) Interest income

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

(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 year 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.

(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) *Research and development costs*

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of

the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence, both research costs and development costs are generally recognized as expenses in the period which they are incurred.

(x) ***Related parties***

For the purposes of this Financial Information, 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.

(y) ***Segment reporting***

Operating segments, and the amounts of each segment item reported in the Financial Information, 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.

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

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Drug eluting stents	376,620	421,748	484,096	122,591	153,545
TAA/AAA stent grafts	18,199	23,075	28,864	7,391	12,843
Bare metal stents	15,032	18,217	20,288	2,389	3,261
Others	11,412	22,202	27,478	5,199	7,078
	<u>421,263</u>	<u>485,242</u>	<u>560,726</u>	<u>137,570</u>	<u>176,727</u>

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.

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, dividends on redeemable convertible preference shares, change in fair value of redeemable convertible preference shares 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.

	Vascular devices business	Diabetes devices business	Orthopedics devices business	Total
Year ended December 31, 2007				
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note (d))	421,263	—	—	421,263
Segment net profit/(loss)	193,852	(926)	—	192,926
Depreciation and amortization for the year	13,486	6	—	13,492
Income tax expense	11,424	—	—	11,424
Write-down of inventories	1,552	—	—	1,552
Additions to non-current segment assets	24,131	66	—	24,197
At December 31, 2007				
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	622,586	60	—	622,646
Reportable segment liabilities	66,286	—	—	66,286
Year ended December 31, 2008				
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note (d))	484,531	711	—	485,242
Segment net profit/(loss)	216,010	(1,828)	(2,935)	211,247
Depreciation and amortization for the year	16,105	519	75	16,699
Income tax expense/(credit)	28,581	(70)	—	28,511
Write-down of inventories	12,464	—	—	12,464
Additions to non-current segment assets	10,695	52,506	347	63,548
At December 31, 2008				
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	551,739	60,156	272	612,167
Reportable segment liabilities	102,558	4,885	—	107,443

	Vascular devices business	Diabetes devices business	Orthopedics devices business	Total
Year ended December 31, 2009				
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note (d))	557,056	3,670	—	560,726
Segment net profit/(loss)	246,197	(5,643)	(9,810)	230,744
Depreciation and amortization for the year	18,601	1,969	657	21,227
Income tax expense/(credit)	40,051	(90)	—	39,961
Write-down of inventories	2,393	18	—	2,411
Additions to non-current segment assets	72,274	3,861	8,193	84,328
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
Three months ended March 31, 2009 (unaudited)				
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note (d))	137,268	302	—	137,570
Segment net profit/(loss)	70,087	(964)	(1,700)	67,423
Depreciation and amortization for the period	4,314	719	—	5,033
Income tax expense	13,690	4	—	13,694
Write-down of inventories	1,075	—	—	1,075
Additions to non-current segment assets	2,378	448	614	3,440
At March 31, 2009 (unaudited)				
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	604,013	62,318	886	667,217
Reportable segment liabilities	88,594	4,990	—	93,584
Three months ended March 31, 2010				
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note (d))	175,923	804	—	176,727
Segment net profit/(loss)	89,401	(2,461)	(3,317)	83,623
Depreciation and amortization for the period	4,827	637	603	6,067
Income tax expense/(credit)	14,668	(25)	—	14,643
Write-down of inventories	341	—	—	341
Additions to non-current segment assets	8,547	935	180	9,662
At March 31, 2010				
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	672,912	57,848	47,932	778,692
Reportable segment liabilities	96,990	4,808	8	101,806

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

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit					
Reportable segment net profit	192,926	211,247	230,744	67,423	83,623
Equity-settled share-based compensation expenses	(21,614)	(274)	(4,841)	(2,215)	(2,047)
Withholding tax on retained earnings of a PRC subsidiary	—	(20,894)	(23,421)	(5,518)	—
Dividends on redeemable convertible preference shares	(13,848)	(5,768)	(5,568)	—	—
Change in fair value of redeemable convertible preference shares	(28,680)	(2,008)	(10,184)	(5,255)	(1,714)
Unallocated income and expense	(26,553)	(3,455)	(357)	(48)	193
Consolidated profit for the year/period . . .	<u>102,231</u>	<u>178,848</u>	<u>186,373</u>	<u>54,387</u>	<u>80,055</u>
	At December 31,			At March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Assets					
Reportable segment assets	622,646	612,167	705,547	667,217	778,692
Unallocated corporate assets	819	13,867	6,311	1,550	8,667
Consolidated total assets	<u>623,465</u>	<u>626,034</u>	<u>711,858</u>	<u>668,767</u>	<u>787,359</u>
Liabilities					
Reportable segment liabilities	66,286	107,443	93,046	93,584	101,806
Unallocated corporate liabilities	196,240	110,988	231,119	111,573	216,643
Consolidated total liabilities	<u>262,526</u>	<u>218,431</u>	<u>324,165</u>	<u>205,157</u>	<u>318,449</u>

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 retained 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.

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
The PRC (place of domicile)	378,113	433,286	501,252	129,587	164,440
Asia	14,343	22,902	31,192	6,333	5,303
South America	20,104	16,629	15,495	1,650	5,551
Europe	8,703	12,425	12,787	—	1,433
	43,150	51,956	59,474	7,983	12,287
	421,263	485,242	560,726	137,570	176,727

(d) Major customers

The Group's customer base is diversified and includes two, three, three, three and three customers with whom transactions have exceeded 10% of the Group's revenue for the years ended December 31, 2007, 2008 and 2009 and three months ended March 31, 2009 and March 31, 2010, respectively. Revenue from the vascular devices business in respect of these customers is set out below:

	Vascular devices business				
	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Customer A	102,490	106,350	98,544	28,437	39,215
Customer B	65,591	62,045	56,873	15,908	24,571
Customer C	—	49,860	63,213	14,755	20,907
	168,081	218,255	218,630	59,100	84,693

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 (loss)/income

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other revenue					
Government grant income	10,702	11,259	14,672	537	65
Interest income on bank deposits	5,932	9,282	7,592	2,154	1,052
Others	3	18	255	368	2
	<u>16,637</u>	<u>20,559</u>	<u>22,519</u>	<u>3,059</u>	<u>1,119</u>
Other net (loss)/income					
Loss on disposal of fixed assets	(117)	(7)	(1,694)	—	—
Net foreign exchange (loss)/gain	(2,005)	(3,224)	(173)	363	665
	<u>(2,122)</u>	<u>(3,231)</u>	<u>(1,867)</u>	<u>363</u>	<u>665</u>

6 Profit before taxation

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

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Finance costs:					
Interest on borrowings wholly repayable					
within five years	1,069	1,549	814	471	1,151
Interest on other borrowings	312	313	306	39	35
Bank charges	291	237	281	62	90
Total interest expense on financial liabilities					
not at fair value through profit or loss	1,672	2,099	1,401	572	1,276
Dividends on redeemable convertible					
preference shares (note 25(b)(iii))	13,848	5,768	5,568	—	—
Change in fair value of redeemable					
convertible preference shares	28,680	2,008	10,184	5,255	1,714
	<u>44,200</u>	<u>9,875</u>	<u>17,153</u>	<u>5,827</u>	<u>2,990</u>
(b) Staff costs:					
Salaries and allowances	59,575	72,245	99,040	16,841	24,986
Contributions to defined contribution					
retirement schemes	6,858	9,110	12,299	2,354	4,549
Equity-settled share-based compensation					
expenses (note 24(c))	21,396	(6)	4,691	2,163	2,031
	<u>87,829</u>	<u>81,349</u>	<u>116,030</u>	<u>21,358</u>	<u>31,566</u>

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.

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(c) Other items:					
Cost of inventories (note 16(b))	74,883	102,947	98,056	20,431	29,899
Depreciation	13,390	16,281	19,730	4,840	5,688
Amortization of interests in leasehold land held for own use under operating leases . .	102	102	778	26	195
Amortization of intangible assets	—	316	719	167	184
Impairment/(reversal of impairment) losses:					
— trade receivables (net)	450	(2,503)	(17)	(100)	—
— other receivables	—	224	—	—	—
— property, plant and equipment	89	—	473	—	—
Operating lease charges in respect of properties	4,796	2,488	1,861	581	394
Listing expense (note)	26,144	1,701	—	—	—
Auditors' remuneration	183	264	169	132	127

Note: The amounts represent listing expenses incurred in connection with the Company's proposed initial public offering in the United States which was subsequently aborted. These amounts were charged to other operating expenses for the years ended December 31, 2007 and 2008.

7 Income tax in the consolidated income statements

(a) Income tax in the consolidated income statements represents:

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax — PRC income tax					
Provision for the year/period	13,513	29,337	54,882	10,791	14,779
(Over)/under provision in respect of prior years	(3,742)	1,507	301	—	—
	9,771	30,844	55,183	10,791	14,779
Current tax — Overseas					
Provision for the year/period	1,936	433	34	—	—
Deferred tax — PRC income tax					
Origination and reversal of temporary differences	(186)	18,639	8,165	8,421	(136)
Effect of changes in tax rates	(97)	(511)	—	—	—
	(283)	18,128	8,165	8,421	(136)
	11,424	49,405	63,382	19,212	14,643

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 Netherlands corporate income tax which is charged at progressive rates ranging from 20% to 25.5% during the Track Record Period.

MP Shanghai, being a foreign investment enterprise registered and operating in the Specified Economic Development Zone in Pudong New Area in the PRC, was entitled to a preferential income tax rate of 15% and was granted a 2-year exemption followed by a 3-year 50% reduction of income tax from its first profit-making year from a tax perspective ("2+3 tax holiday"). MP Shanghai started its tax holiday in 2004 and was subject to income tax at 7.5% for 2007.

On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new CIT Law"), which unified the income tax rate to 25% for all enterprises. The new CIT Law was effective on January 1, 2008. Under the new CIT Law and its relevant regulations, MP Shanghai's 2+3 tax holiday is grandfathered and it can enjoy the transitional rates of 18%, 20%, 22% and 24% for 2008, 2009, 2010 and 2011, respectively. In addition, MP Shanghai is recognized as a high and new-technology enterprise for 2009 and 2010 under which it is entitled to a preferential income tax rate of 15%. Based on the above, MP Shanghai is subject to income tax at 9% for 2008 and 15% for 2009 and 2010.

MP Lifesciences Shanghai (established in April 2008), MP Lifesciences Beijing (acquired in June 2008) and MP Orthopedics (established in May 2009) are subject to income tax at 25%.

According to the new 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.

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

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	113,655	228,253	249,755	73,599	94,698
PRC statutory income tax rate	33%	25%	25%	25%	25%
Computed "expected" income tax expense	37,506	57,063	62,439	18,400	23,675
Effect of PRC preferential tax rate	(31,806)	(20,225)	(28,933)	(9,425)	(9,187)
Effect of Netherlands' tax rate differential	(565)	(129)	(9)	12	(6)
Effect of entities not subject to income tax	22,796	2,808	4,026	1,326	387
Effect of 2+3 tax holiday	(13,138)	(29,328)	—	—	—
Effect of non-deductible equity-settled share-based compensation expenses	7,133	69	1,210	554	512
Effect of other non-deductible expenses	2,193	321	1,648	227	879
Effect of deemed taxable income (note)	—	20,575	4,122	3,816	—
Effect of super-deduction on research and development expenses	(8,856)	(3,656)	(6,002)	(1,252)	(2,414)
Effect of tax losses not recognized	—	17	1,159	36	797
Effect of changes in tax rates	(97)	(511)	—	—	—
Withholding tax on retained earnings of a PRC subsidiary	—	20,894	23,421	5,518	—
(Over)/under provision in prior years	(3,742)	1,507	301	—	—
Actual income tax expense	11,424	49,405	63,382	19,212	14,643

Note: The amounts represent the CIT payable in respect of the deemed sales amounts of the free unit of 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:

Year ended December 31, 2007						
	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
<i>Executive Director</i>						
Zhaohua Chang	—	480	—	—	—	480
<i>Non-executive Directors</i>						
Norithiro Ashida	—	—	—	—	—	—
Hiroshi Shirafuji	—	—	—	—	—	—
Fang Yao	—	—	—	—	—	—
Terry McCarthy	—	—	—	—	—	—
Shuiming Chung	—	178	—	—	—	178
	—	658	—	—	—	658
	—	658	—	—	—	658
Year ended December 31, 2008						
	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
<i>Executive Director</i>						
Zhaohua Chang	—	559	—	—	—	559
<i>Non-executive Directors</i>						
Norithiro Ashida	—	—	—	—	—	—
Hiroshi Shirafuji	—	—	—	—	—	—
Fang Yao	—	—	—	—	—	—
Shuiming Chung	—	—	—	—	—	—
	—	559	—	—	—	559
	—	559	—	—	—	559
Year ended December 31, 2009						
	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
<i>Executive Director</i>						
Zhaohua Chang	—	656	—	—	—	656
<i>Non-executive directors</i>						
Norithiro Ashida	—	—	—	—	—	—
Hiroshi Shirafuji	—	—	—	—	—	—
Fang Yao	—	—	—	—	—	—
Xiaolong Liu	—	—	—	—	—	—
	—	656	—	—	—	656
	—	656	—	—	—	656

Three months ended March 31, 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
<i>Executive Director</i>						
Zhaohua Chang	—	164	—	—	—	164
<i>Non-executive Directors</i>						
Norithiro Ashida	—	—	—	—	—	—
Hiroshi Shirafuji	—	—	—	—	—	—
Fang Yao	—	—	—	—	—	—
	—	164	—	—	—	164

Three months ended March 31, 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
<i>Executive Director</i>						
Zhaohua Chang	—	166	—	—	—	166
<i>Non-executive Directors</i>						
Norithiro Ashida	—	—	—	—	—	—
Hiroshi Shirafuji	—	—	—	—	—	—
Xiaolong Liu	—	—	—	—	—	—
<i>Independent non-executive Director</i>						
Ze Zhao Hua	—	—	—	—	—	—
	—	166	—	—	—	166

During the Track Record Period, 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 during the Track Record Period.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, none were directors of the Company during the Track Record Period. The aggregate of the emoluments in respect of these individuals are as follows:

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other benefits	5,157	6,029	4,065	1,047	1,061
Retirement scheme contributions	64	74	129	29	33
Discretionary bonuses	3,000	3,270	4,366	3,850	4,406
Share-based compensation (note)	16,868	2,949	1,714	1,388	634
	<u>25,089</u>	<u>12,322</u>	<u>10,274</u>	<u>6,314</u>	<u>6,134</u>

Note:

These represent 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 details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 24.

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

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	Number of individuals	Number of individuals	Number of individuals	Number of individuals (unaudited)	Number of individuals
Nil to HK\$1,000,000	—	—	—	1	1
HK\$1,000,001 to HK\$1,500,000	1	—	—	4	4
HK\$1,500,001 to HK\$2,000,000	—	2	1	—	—
HK\$2,000,001 to HK\$2,500,000	—	1	2	—	—
HK\$2,500,001 to HK\$3,000,000	—	1	2	—	—
HK\$3,500,001 to HK\$4,000,000	1	—	—	—	—
HK\$4,000,001 to HK\$4,500,000	1	—	—	—	—
HK\$4,500,001 to HK\$5,000,000	1	—	—	—	—
HK\$5,000,001 to HK\$5,500,000	—	1	—	—	—
HK\$11,500,001 to HK\$12,000,000	1	—	—	—	—

During the Track Record Period, except for the amount of RMB2,700,000 paid to one of the above highest paid individuals in 2008 as a compensation for his loss of office, there were no other 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. There was no arrangement under which the above highest paid individuals waived or agreed to waive any remuneration during the Track Record Period.

10 Profit attributable to equity shareholders of the Company

The consolidated profit of the Group includes losses of RMB68,981,000, RMB19,585,000, RMB25,461,000, RMB7,489,000 and RMB1,432,000, which have been dealt with the financial statements of the Company for the year ended 2007, 2008 and 2009 and the three months ended March 31, 2009 (unaudited) and March 31, 2010, respectively.

Reconciliation of the above amounts to the Company's profit/(loss) for the year/period:

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Amount of consolidated profit/(loss) dealt with in the Company's financial statements	(68,981)	(19,585)	(25,461)	(7,489)	(1,432)
Final dividends from subsidiaries in respect of the previous financial year, approved during the year/period	<u>235,423</u>	<u>144,194</u>	<u>231,256</u>	—	—
Company's profit/(loss) for the year/period (note 25(a))	<u>166,442</u>	<u>124,609</u>	<u>205,795</u>	<u>(7,489)</u>	<u>(1,432)</u>

Details of dividends paid and payable to equity shareholders of the Company are set out in note 25(b).

11 Earnings per share**(a) Basic earnings per share**

The calculation of basic earnings per share of the Track Record Period is based on the profit attributable to ordinary equity shareholders and the weighted average number of shares during the Track Record Period.

Weighted average number of ordinary shares

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000 (unaudited)	Number of shares '000
Ordinary shares as if in issue at January 1	114,174	112,943	113,064	113,064	113,506
Effect of shares repurchased (note 25(c)(i))	(1,300)	—	—	—	—
Effect of share options exercised (note 25(c)(iii))	<u>95</u>	<u>87</u>	<u>56</u>	—	<u>3</u>
Weighted average number of ordinary shares during the year/period	<u>112,969</u>	<u>113,030</u>	<u>113,120</u>	<u>113,064</u>	<u>113,509</u>

(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 of RMB102,231,000, RMB178,848,000, RMB186,373,000, and RMB54,387,000 and RMB80,055,000 for the year ended December 31, 2007, 2008 and 2009 and three months ended March 31, 2009 (unaudited) and March 31, 2010 respectively 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)

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000 (unaudited)	Number of shares '000
Weighted average number of ordinary shares during the year/period	112,969	113,030	113,120	113,064	113,509
Effect of deemed issue of shares under the Company's option scheme at nil consideration (note 24)	<u>101</u>	<u>85</u>	<u>1,043</u>	<u>64</u>	<u>438</u>
Weighted average number of ordinary shares during the year/period	<u>113,070</u>	<u>113,115</u>	<u>114,163</u>	<u>113,128</u>	<u>113,947</u>

(c) Unaudited pro forma basic and diluted earnings per share

On September 3, 2010, the Company's Board of Directors conditionally adopted a 10-for-1 share split of its ordinary shares (the "conditional share split").

The historical earnings per share for all periods presented in the Financial Information have not been adjusted to reflect the impact of the conditional share split. The pro forma weighted average number of ordinary shares and the pro forma earnings per share information giving effect to the share split as if it had been completed at the beginning of the Track Record Period, is as follows:

Unaudited pro forma weighted average number of ordinary shares (basic)

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000 (unaudited)	Number of shares '000
Unaudited pro forma weighted average number of ordinary shares during the year/period . . .	1,129,692	1,130,295	1,131,199	1,130,643	1,135,089
Unaudited pro forma earnings per share (RMB)	<u>0.090</u>	<u>0.158</u>	<u>0.165</u>	<u>0.048</u>	<u>0.071</u>

Unaudited pro forma weighted average number of ordinary shares (diluted)

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000 (unaudited)	Number of shares '000
Unaudited pro forma weighted average number of ordinary shares (diluted) during the year/ period	1,130,698	1,131,145	1,141,633	1,131,277	1,139,466
Unaudited pro forma earnings per share (diluted) (RMB)	<u>0.090</u>	<u>0.158</u>	<u>0.163</u>	<u>0.048</u>	<u>0.070</u>

12 Fixed assets
(a) The Group

	Buildings held for own use	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Motor vehicles	Computer software	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:										
At January 1, 2007	30,228	4,295	49,100	6,884	5,957	3,615	5,778	105,857	5,104	110,961
Exchange adjustments	—	—	—	12	—	9	—	21	—	21
Transfer	3,862	3,317	5,503	326	20	—	(13,028)	—	—	—
Additions	1,528	1,098	4,354	3,379	1,878	1,094	10,866	24,197	—	24,197
Disposals	—	—	(2)	(314)	(221)	—	—	(537)	—	(537)
At December 31, 2007	35,618	8,710	58,955	10,287	7,634	4,718	3,616	129,538	5,104	134,642
At January 1, 2008	35,618	8,710	58,955	10,287	7,634	4,718	3,616	129,538	5,104	134,642
Exchange adjustments	—	—	—	(25)	—	(38)	—	(63)	—	(63)
Transfer	33,999	9,176	1,389	1	641	—	(45,206)	—	—	—
Additions	—	3,562	3,196	2,046	35	1,336	42,582	52,757	—	52,757
Additions through business combination (note 29)	—	—	—	33	—	—	—	33	—	33
Disposals	—	—	—	(319)	—	—	—	(319)	—	(319)
At December 31, 2008	69,617	21,448	63,540	12,023	8,310	6,016	992	181,946	5,104	187,050
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	—	—	—	(9)	—	(23)	—	(32)	—	(32)
Transfer	—	1,230	15,687	24	—	—	(16,941)	—	—	—
Additions	—	1,352	2,766	594	—	85	4,865	9,662	—	9,662
Disposals	—	—	—	(32)	—	(28)	—	(60)	—	(60)
At March 31, 2010	69,634	24,882	95,927	16,241	11,963	7,864	8,515	235,026	38,913	273,939

	Buildings held for own use		Office equipment, furniture and fixtures			Motor vehicles		Computer software		Construction in progress		Interests in leasehold land held for own use under operating leases		Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Accumulated depreciation, amortization and impairment:														
At January 1, 2007	2,497	967	16,530	1,997	1,221	594	—	23,806	383	24,189	7	—	24,189	7
Exchange adjustments	—	—	7,641	5	—	2	—	7	—	—	—	—	—	—
Charge for the year	904	833	—	1,540	1,172	1,300	—	13,390	102	13,492	—	102	13,492	—
Impairment loss	—	—	89	—	(199)	—	—	89	—	89	—	—	89	—
Written back on disposals	—	—	(2)	(183)	—	—	—	(384)	—	(384)	—	—	(384)	—
At December 31, 2007	3,401	1,800	24,258	3,359	2,194	1,896	—	36,908	485	37,393	—	485	37,393	—
At January 1, 2008	3,401	1,800	24,258	3,359	2,194	1,896	—	36,908	485	37,393	—	485	37,393	—
Exchange adjustments	—	—	—	(13)	—	(9)	—	(22)	—	(22)	—	—	(22)	—
Charge for the year	1,087	1,425	8,812	1,949	1,342	1,666	—	16,281	102	16,383	—	102	16,383	—
Written back on disposals	—	—	—	(309)	—	—	—	(309)	—	(309)	—	—	(309)	—
At December 31, 2008	4,488	3,225	33,070	4,986	3,536	3,553	—	52,858	587	53,445	—	587	53,445	—
At January 1, 2009	4,488	3,225	33,070	4,986	3,536	3,553	—	52,858	587	53,445	—	587	53,445	—
Exchange adjustments	—	—	—	2	—	4	—	6	—	6	—	—	6	—
Charge for the year	1,310	2,153	10,345	2,304	1,652	1,966	—	19,730	778	20,508	—	778	20,508	—
Impairment loss	—	—	473	—	—	—	—	473	—	473	—	—	473	—
Written back on disposals	—	(1)	(4,307)	(105)	—	—	—	(4,413)	—	(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	—	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	—	1,365	70,019	—
Exchange adjustments	—	—	—	(6)	—	(14)	—	(20)	—	(20)	—	—	(20)	—
Charge for the period	427	858	2,945	681	540	237	—	5,688	195	5,883	—	195	5,883	—
Written back on disposals	—	—	—	(32)	—	(28)	—	(60)	—	(60)	—	—	(60)	—
At March 31, 2010	6,225	6,235	42,526	7,830	5,728	5,718	—	74,262	1,560	75,822	—	1,560	75,822	—
Net book value:														
At December 31, 2007	32,217	6,910	34,697	6,928	5,440	2,822	—	92,630	4,619	97,249	—	4,619	97,249	—
At December 31, 2008	65,129	18,223	30,470	7,037	4,774	2,463	—	129,088	4,517	133,605	—	4,517	133,605	—
At December 31, 2009	63,836	16,923	37,893	8,477	6,775	2,307	—	156,802	37,548	194,350	—	37,548	194,350	—
At March 31, 2010	63,409	18,647	53,401	8,411	6,235	2,146	—	160,764	37,353	198,117	—	37,353	198,117	—

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

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC				
— medium-term leases	<u>36,836</u>	<u>69,646</u>	<u>101,384</u>	<u>100,762</u>
<i>Representing:</i>				
Buildings held for own use	32,217	65,129	63,836	63,409
Interest in leasehold land held for own use under operating leases	<u>4,619</u>	<u>4,517</u>	<u>37,548</u>	<u>37,353</u>
	<u>36,836</u>	<u>69,646</u>	<u>101,384</u>	<u>100,762</u>

(c) At December 31, 2007, 2008 and 2009 and March 31, 2010, buildings held for own use with net book value of RMB32,217,000, RMB31,186,000, RMB30,164,000 and RMB29,908,000 respectively have been pledged as security for short term and long term loans (note 21(a)).

13 Intangible assets

The Group

	Diabetes technology	License	Trademark	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At January 1, 2007 and December 31, 2007	—	—	—	—
At January 1, 2008	—	—	—	—
Additions through business combination (note 29)	8,128	2,630	—	10,758
At December 31, 2008	8,128	2,630	—	10,758
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 and March 31, 2010	8,128	2,630	300	11,058
Accumulated amortization:				
At January 1, 2007 and December 31, 2007	—	—	—	—
At January 1, 2008	—	—	—	—
Charge for the year	239	77	—	316
At December 31, 2008	239	77	—	316
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	120	39	25	184
At March 31, 2010	837	271	111	1,219
Net book value:				
At December 31, 2007	—	—	—	—
At December 31, 2008	7,889	2,553	—	10,442
At December 31, 2009	7,411	2,398	214	10,023
At March 31, 2010	7,291	2,359	189	9,839

All amortization expenses were included as administrative expenses during the Track Record Period.

14 *Goodwill**The Group*

	RMB'000
<i>Cost:</i>	
At January 1, 2007 and December 31, 2007	—
At January 1, 2008	—
Addition through business combination (note 29)	2,105
At December 31, 2008	2,105
At January 1, 2009 and December 31, 2009	2,105
At January 1, 2010 and March 31, 2010	2,105
<i>Carrying amount:</i>	
At December 31, 2007	—
At December 31, 2008, December 31, 2009 and March 31, 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 December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Diabetes devices business	—	2,105	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 December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	519,451	519,725	524,566	526,613

The following list contains the particulars of subsidiaries of the Group. 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		Principal activity
			Direct %	Indirect %	
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 product
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
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 Track Record Period, except for the business combination disclosed in note 29.

The statutory financial statements of the subsidiaries subject to statutory audit requirements were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises either in the PRC or in the Netherlands and were audited during the Track Record Period by the following auditors:

Name of entities	Period	Auditor
MP Shanghai	Years ended December 31, 2007, 2008 and 2009	Shanghai Wen Hui Certified Public Accountants Co., Ltd.* 上海文會會計師事務所有限公司
MP B.V.	Years ended December 31, 2007, 2008 and 2009	PricewaterhouseCoopers Accountants B.V.
MP Lifesciences Shanghai	(i) Period from April 28, 2008 (date of incorporation) to December 31, 2008 (ii) Year ended December 31, 2009	Shanghai Wen Hui Certified Public Accountants Co., Ltd.* 上海文會會計師事務所有限公司
MP Lifesciences Beijing	(i) Period from June 2, 2008 (date of acquisition) to December 31, 2008 (ii) Year ended December 31, 2009	Beijing Zhong Yan Tong Accountant Office Co., Ltd.* 北京中燕通會計師事務所有限公司
MP Orthopedics	Period from May 18, 2009 (date of incorporation) to December 31, 2009	Shanghai Wen Hui Certified Public Accountants Co., Ltd.* 上海文會會計師事務所有限公司

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

16 Inventories

(a) Inventories in the consolidated balance sheets comprise:

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	30,285	32,382	29,560	33,488
Work in progress	8,080	10,935	15,225	17,121
Finished goods	9,349	5,159	11,910	14,089
	<u>47,714</u>	<u>48,476</u>	<u>56,695</u>	<u>64,698</u>

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 statements is as follows:*

	Years ended December 31,			Three months, ended March 31	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Carrying amount of inventories sold	58,619	75,239	75,626	16,215	22,343
Write-down of inventories	1,552	12,464	2,411	1,075	341
Cost of inventories sold	60,171	87,703	78,037	17,290	22,684
Cost of inventories directly recognized as research and development costs	14,712	15,244	20,019	3,141	7,215
Cost of inventories	<u>74,883</u>	<u>102,947</u>	<u>98,056</u>	<u>20,431</u>	<u>29,899</u>

17 Trade and other receivables

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	136,231	106,588	121,672	173,275
Amounts due from related parties (note 28(c))	2,204	6,758	14,701	12,298
	138,435	113,346	136,373	185,573
Less: Allowance for doubtful debts	(8,651)	(6,148)	(2,551)	(2,551)
	129,784	107,198	133,822	183,022
Deposits and prepayments	829	1,413	6,089	7,202
Other receivables	6,899	6,025	3,906	6,293
	<u>137,512</u>	<u>114,636</u>	<u>143,817</u>	<u>196,517</u>

The Company

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	<u>117,807</u>	<u>3</u>	<u>114,433</u>	<u>—</u>

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 dates:

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Current	73,556	100,820	130,346	179,981
Less than 1 month past due	34,540	408	3,247	2,109
1 to 3 months past due	19,840	—	28	85
More than 3 months past due	1,848	5,970	201	847
Amounts past due	56,228	6,378	3,476	3,041
	<u>129,784</u>	<u>107,198</u>	<u>133,822</u>	<u>183,022</u>

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 (see note 2(j)).

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

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1	8,201	8,651	6,148	2,551
Net impairment loss recognized/(reversed)	450	(2,503)	(17)	—
Uncollectible amounts written off	—	—	(3,580)	—
At December 31/March 31	<u>8,651</u>	<u>6,148</u>	<u>2,551</u>	<u>2,551</u>

The Group's trade receivables including amounts due from related parties, of RMB8,651,000, RMB6,148,000, RMB2,551,000 and RMB2,551,000 were individually determined to be impaired as at December 31, 2007, 2008 and 2009 and March 31, 2010 respectively. 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. Consequently, specific allowances for doubtful debts of RMB2,144,000, RMB301,000, RMB188,000, Nil and Nil were recognized during the year ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 (unaudited) and March 31, 2010 respectively. The Group does not hold any collateral over these balances.

18 Deposits with banks

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits with banks with original maturities over three months	—	205,084	191,000	175,000
Pledged deposits with banks	2,940	2,485	2,595	2,595
	<u>2,940</u>	<u>207,569</u>	<u>193,595</u>	<u>177,595</u>

Included in pledged deposits with banks, RMB651,000 was pledged to a bank as at December 31, 2007, 2008 and 2009 and March 31, 2010 as security for the short term and long term loans (note 21). 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

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and in hand	166,801	66,461	90,194	101,983
Deposits with other financial institutions	143,051	—	—	—
	<u>309,852</u>	<u>66,461</u>	<u>90,194</u>	<u>101,983</u>

The Company

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and in hand	779	11,713	4,162	8,623

At December 31, 2007, 2008 and 2009 and March 31, 2010, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted RMB308,078,000, RMB54,295,000, RMB85,232,000 and RMB92,839,000 respectively. 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.

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

	Note	Years ended December 31,			Three months ended March 31,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation		113,655	228,253	249,755	73,599	94,698
Adjustments for:						
— Depreciation	6(c)	13,390	16,281	19,730	4,840	5,688
— Amortization of interests in leasehold land held for own use under operating leases	6(c)	102	102	778	26	195
— Amortization of intangible assets	6(c)	—	316	719	167	184
— Impairment loss on property, plant and equipment	6(c)	89	—	473	—	—
— Impairment/(reversal of impairment) losses on trade receivables	6(c)	450	(2,503)	(17)	(100)	—
— Impairment loss on other receivables	6(c)	—	224	—	—	—
— Finance costs	6(a)	44,200	9,875	17,153	5,827	2,990
— Interest income on bank deposits	5	(5,932)	(9,282)	(7,592)	(2,154)	(1,052)
— Loss on disposal of fixed assets	5	117	7	1,694	—	—
— Equity-settled share-based compensation expenses	24(c)	21,614	274	4,841	2,215	2,047
Change in working capital:						
— Decrease/(increase) in inventories		356	(256)	(8,219)	3,922	(8,003)
— (Increase)/decrease in trade and other receivables		(33,549)	29,549	(30,731)	(32,123)	(52,343)
— Increase/(decrease) in trade and other payables		10,500	18,026	(12,334)	(12,850)	11,193
— (Decrease)/increase in deferred income		(1,410)	8,085	6,750	(475)	14
Cash generated from operations		<u>163,582</u>	<u>298,951</u>	<u>243,000</u>	<u>42,894</u>	<u>55,611</u>

20 Trade and other payables*The Group*

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	2,552	4,332	5,176	8,291
Receipts in advance	—	167	131	1,259
Other payables and accruals	36,204	54,022	42,412	45,204
Dividends payable to ordinary shareholders	109,213	10,424	101,945	236
Dividend payable to holder of redeemable convertible preference shares	8,845	—	2,596	—
	<u>156,814</u>	<u>68,945</u>	<u>152,260</u>	<u>54,990</u>

The Company

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	8,115	7,593	—	—
Amounts due to subsidiaries	17,489	18,450	25,112	23,665
Dividends payable to ordinary shareholders	109,213	10,424	101,945	236
Dividend payable to holder of redeemable convertible preference shares	8,845	—	2,596	—
	<u>143,662</u>	<u>36,467</u>	<u>129,653</u>	<u>23,901</u>

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 creditors with the following aging analysis as of the balance dates:

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	2,248	4,045	4,991	7,233
Due after 1 month but within 3 months	102	50	44	823
Due after 3 months but within 6 months	202	237	141	235
	<u>2,552</u>	<u>4,332</u>	<u>5,176</u>	<u>8,291</u>

21 Short-term and long-term loans*(a) 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 percentage point. Interest is paid annually. The actual interest paid during the years ended December 31, 2007, 2008 and 2009 amounted to RMB682,000, RMB1,193,000 and RMB480,000 respectively, and nil for the three months ended March 31, 2009 (unaudited) and March 31, 2010.

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.

The SFMA loan is secured by (i) the buildings held for own use with net book value of RMB32,217,000, RMB31,186,000, RMB30,164,000 and RMB29,908,000 at December 31, 2007, 2008 and 2009 and March 31, 2010 respectively (note 12(c)); and (ii) deposits with banks of RMB651,000 as at December 31, 2007, 2008 and 2009 and March 31, 2010 respectively (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 government grant received by the Group, which is amortized as a government grant income to the consolidated income statement over the period of the loan, using the effective interest method (see 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 RMB164,000, RMB169,000, RMB156,000, RMB39,000 and RMB35,000 and related government grant income of RMB164,000, RMB169,000, RMB156,000, RMB39,000 and RMB35,000 were recognized in the consolidated income statements for the year ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 (unaudited) and March 31, 2010, respectively.

(b) *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.

Interest expense of RMB827,000 and RMB671,000 and related government grant income of RMB827,000 and RMB671,000 were recognized in the consolidated income statements for the year ended December 31, 2007 and 2008 respectively.

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 as 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 RMB737,000, RMB765,000 and RMB437,000 and related government grant income of RMB737,000, RMB765,000 and RMB437,000 were recognized in the consolidated income statements during the year ended December 31, 2008 and 2009 and the three months ended March 31, 2009 (unaudited) respectively. The loans were repaid in full on March 31, 2009 and June 30, 2009 respectively.

At the balance sheet dates, the short-term and long-term loans were repayable as follows:

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year				
— short-term loans	8,681	20,235	—	100,000
— long-term loans (current portion)	12,070	434	448	452
	20,751	20,669	448	100,452
After 1 year but within 2 years	434	448	462	465
After 2 years but within 5 years	1,386	1,429	1,473	1,484
After 5 years	3,193	2,702	2,196	2,213
	5,013	4,579	4,131	4,162
	25,764	25,248	4,579	104,614

22 Income tax in the balance sheets

(a) *Current taxation in the balance sheets represents:*

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year/period	13,513	29,337	54,882	14,779
Provisional tax paid	(12,899)	(17,814)	(28,599)	—
Balance of PRC income tax relating to prior years	—	—	—	1,351
	614	11,523	26,283	16,310
Tax payable/(recoverable) of the subsidiary outside the PRC	1,048	(358)	16	—
	1,662	11,165	26,299	16,130

The Company

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Withholding tax on dividend declared ⁽ⁱ⁾ from a PRC subsidiary	—	—	4,754	—

- (i) 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. Consequently, a withholding tax liability of RMB11,884,000 was reclassified from deferred tax liabilities to income tax payable during 2009. The entire amount was paid in January 2010.

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

*Reconciliation to the balance sheets:**The Group*

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax recoverable	—	(358)	—	—
Income tax payable	1,662	11,523	26,299	16,130
	<u>1,662</u>	<u>11,165</u>	<u>26,299</u>	<u>16,130</u>

The Company

Income tax payable	<u>—</u>	<u>—</u>	<u>4,754</u>	<u>—</u>
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(b) *Deferred tax (assets)/liabilities recognized:*(i) *The Group*

<u>Deferred tax arising from:</u>	<u>Allowance</u>	<u>Provision for</u>	<u>Other</u>	<u>Intangible</u>	<u>Withholding</u>	<u>Total</u>
	<u>for doubtful</u>	<u>inventories</u>	<u>provisions</u>	<u>assets</u>	<u>tax on</u>	
	<u>debt</u>				<u>retained</u>	
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>earnings of</u>	<u>RMB'000</u>
					<u>a PRC</u>	
					<u>subsidiary</u>	
					<u>RMB'000</u>	<u>RMB'000</u>
At January 1, 2007	—	(310)	(173)	—	—	(483)
(Credited)/charged to the consolidated income statement	(471)	194	(6)	—	—	(283)
At December 31, 2007	(471)	(116)	(179)	—	—	(766)
At January 1, 2008	(471)	(116)	(179)	—	—	(766)
Addition through a business combination (note 29)	—	—	—	2,689	—	2,689
(Credited)/charged to the consolidated income statement	(485)	(1,686)	(517)	(78)	20,894	18,128
At December 31, 2008	(956)	(1,802)	(696)	2,611	20,894	20,051
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	—	(51)	(45)	(40)	—	(136)
At March 31, 2010	(387)	(1,819)	(4,557)	2,412	32,431	28,080

(ii) *The Company*

	Withholding tax on retained earnings of a PRC subsidiary
	RMB'000
<i>Deferred tax arising from:</i>	
At January 1, 2007, December 31, 2007 and January 1, 2008	—
Charged to the income statement	8,358
At December 31, 2008	<u>8,358</u>
At January 1, 2009	8,358
Charged to the income statement	4,614
At December 31, 2009	<u>12,972</u>
At January 1, 2010 and March 31, 2010	<u>12,972</u>

(iii) *Reconciliation to the balance sheets**The Group*

	<u>At December 31,</u>			<u>At March 31,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognized in the balance sheets	(766)	(3,454)	(6,667)	(6,763)
Net deferred tax liabilities recognized in the balance sheets	—	23,505	34,883	34,843
	<u>(766)</u>	<u>20,051</u>	<u>28,216</u>	<u>28,080</u>

The Company

	<u>At December 31,</u>			<u>At March 31,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax liabilities recognized in the balance sheets	—	8,358	12,972	12,972

(c) *Deferred tax assets 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 RMB66,000, RMB4,700,000 and RMB7,887,000 as at December 31, 2008 and 2009 and March 31, 2010, respectively, 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 PRC subsidiaries and will expire in five years after they are incurred. As at March 31, 2010, tax losses of RMB66,000, RMB4,634,000 and RMB3,187,000 will expire on December 31, 2013, 2014 and 2015 respectively.

(d) Deferred tax liabilities not recognized

At March 31, 2010, no deferred tax liability was recognized for temporary differences relating to the undistributed profits of a PRC subsidiary amounting to RMB49,684,000 (December 31, 2007, 2008 and 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	Government grant through low-interest loans and interest-free loan	Total
	RMB'000 (note)	RMB'000 (note 21)	RMB'000
As at January 1, 2007	6,900	2,252	9,152
Additions during the year	1,500	475	1,975
Government grant recognized as other revenue	(1,920)	(991)	(2,911)
As at December 31, 2007	<u>6,480</u>	<u>1,736</u>	<u>8,216</u>
As at January 1, 2008	6,480	1,736	8,216
Additions during the year	9,341	1,502	10,843
Government grant recognized as other revenue	(350)	(1,577)	(1,927)
As at December 31, 2008	<u>15,471</u>	<u>1,661</u>	<u>17,132</u>
As 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)
As at December 31, 2009	<u>23,142</u>	<u>740</u>	<u>23,882</u>
As at January 1, 2010	23,142	740	23,882
Additions during the period	79	—	79
Government grant recognized as other revenue	(30)	(35)	(65)
As at March 31, 2010	<u>23,191</u>	<u>705</u>	<u>23,896</u>

Represented by:

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion	839	920	142	138
Non-current portion	<u>7,377</u>	<u>16,212</u>	<u>23,740</u>	<u>23,758</u>
	<u>8,216</u>	<u>17,132</u>	<u>23,882</u>	<u>23,896</u>

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.

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, adopted in 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. MP Shanghai recognized equity-settled share-based compensation expenses totalling RMB13,043,000 from 2004 to 2006 in respect of the 8,869,245 share options fully vested and exercised. In addition, for 1,009,760 share options which were exercisable one year after the consummation of an initial public offering (“IPO”) of MP Cayman, MP Shanghai recognized equity-settled share-based compensation expenses totalling RMB990,000 when they were vested immediately on their grant dates in 2004 and 2005.

The remaining 382,025 share options were vested over an explicit service period from two to three years and had a fair value of RMB403,000 at the grant date. For the years ended December 31, 2007 and 2008, MP Shanghai recognized share-based compensation expenses of RMB377,000 and RMB26,000 respectively.

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	382,025	Vested one to two years from the modification date	8 years and 9 months
Total share options granted . . .	<u>1,391,785</u>		

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

	At December 31,						At March 31,	
	2007		2008		2009		2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	RMB		RMB		RMB		RMB	
Outstanding at the beginning of the year/period	1.73	1,391,785	1.60	1,260,595	1.26	1,009,760	1.26	1,009,760
Exercised during the year/period	2.97	(131,190)	2.97	(119,645)	—	—	—	—
Forfeited during the year/period	—	—	2.97	(131,190)	—	—	—	—
Outstanding at the end of the year/period . .	1.60	<u>1,260,595</u>	1.26	<u>1,009,760</u>	1.26	<u>1,009,760</u>	1.26	<u>1,009,760</u>
Exercisable at the end of the year/period . .	2.97	<u>131,190</u>	—	<u>—</u>	—	<u>—</u>	—	<u>—</u>

- (iii) *Fair value of share options and assumptions of the 2004 Modified Plan*

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

	2004 Modified Plan
<i>Fair value of share options and assumptions</i>	
Fair value at modification date	USD2.80
Share price at modification date	USD3.01
Exercise price at modification date	HKD0.55 to HKD0.71 and USD0.25 to USD0.38
Expected volatility (expressed as a weighted average volatility used in the modeling under binomial option pricing model)	23.85%
Option life	9 to 10 years
Suboptimal exercise factor	1.5
Expected dividend yield	0%
Average risk-free interest rate	4.68%
Forfeiture rate	0%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as MP Shanghai.

Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

In respect of share options granted under a service condition, the condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options. In respect of share options which were fully vested but only exercisable one year after the consummation of the IPO, the exercisability of these share options was a non-vesting market condition which has been considered in the measurement of fair value at grant date.

(b) *The 2006 share option plan*

On August 26, 2006, the Company adopted 2006 Share Incentive Plan (the "2006 Option 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 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.

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

	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Weighted average exercise price RMB
<i>Options granted to executives on:</i>				
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	32.41
June 25, 2008	370,000	2,273	6.14	29.01
December 1, 2008	420,000	4,020	9.57	29.11
October 21, 2009	600,000	8,238	13.73	20.91
	<u>5,220,362</u>	<u>57,317</u>		

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.

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

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 was determined based on the date of employment. 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 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 RMB
<i>Options granted to consultants on:</i>				
May 17, 2007	150,000	747	4.98	32.63
June 14, 2007	50,000	255	5.10	32.41
	<u>200,000</u>	<u>1,002</u>		
Total options granted	<u>6,195,362</u>	<u>64,666</u>		

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.

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

	At December 31,						At March 31,	
	2007		2008		2009		2010	
	Weighted average exercise price RMB	Number of options	Weighted average exercise price RMB	Number of options	Weighted average exercise price RMB	Number of Options '000	Weighted average exercise price RMB	Number of options '000
Outstanding at the beginning of the year/period	—	—	17.99	4,653,024	24.22	2,665,141	27.50	2,554,618
Granted during the year/period	18.10	4,780,362	29.06	790,000	21.23	625,000	—	—
Exercised during the year/period	9.69	(29,352)	19.04	(1,908)	9.12	(439,741)	18.77	(13,173)
Forfeited during the year/period	26.06	(97,986)	15.16	(2,775,975)	12.09	(295,782)	18.80	(1,707)
Outstanding at the end of the year/period	17.99	<u>4,653,024</u>	24.22	<u>2,665,141</u>	27.50	<u>2,554,618</u>	27.55	<u>2,539,738</u>
Exercisable at the end of the year/period	19.81	<u>886,634</u>	22.67	<u>860,681</u>	31.31	<u>838,743</u>	30.48	<u>971,884</u>

All the share options granted are exercisable by the grantees upon vesting and will expire in April 2016 through January 2017. As at December 31, 2007, 2008 and 2009 and March 31, 2010, the weighted average remaining contractual life for the share options granted under the 2006 Option Plan was 9.06 years, 8.33 years, 7.58 years and 7.33 years respectively.

(iii) Fair value of share options and assumptions of the 2006 Option Plan

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

<u>Fair value of share options and assumptions</u>	<u>2006 Option Plan</u>
Fair value	USD0.56 to USD2.33
Share price	USD3.06 to USD4.08
Exercise price	USD1.267 to USD4.250
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial option pricing model)	21.2% to 55.0%
Option life	10 years
Suboptimal exercise factor	1.5
Expected dividend yield	0% to 1.17%
Average risk-free interest rate	2.14% to 5.23%
Forfeiture rate	5% to 6%

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 years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 (unaudited) and March 31, 2010 were RMB21,237,000, RMB248,000, RMB4,841,000, RMB2,215,000 and RMB2,047,000, respectively.

Share options under the 2004 Modified Plan and 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 Company's 2004 Modified Plan, there were no market conditions associated with the share options grants.

The share options under the 2004 Modified Plan and 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.

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

On March 9, 2010, the Board approved a modification to 2006 Option Plan, to reduce the exercise price from USD4.25 to USD3.062 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 has resulted in 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.

The estimate of the fair value of these share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

Fair value of share options and assumptions	Before modification of exercise price	After modification of exercise price
Fair value	USD1.44 to USD2.49	USD1.74 to USD2.81
Share price	USD4.74	USD4.74
Exercise price	USD4.25	USD3.062
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial option pricing model)	54.54% to 55.28%	54.54% to 55.28%
Option life	10 years	10 years
Suboptimal exercise factor	1.5	1.5
Expected dividend yield	0% to 1.17%	0% to 1.17%
Average risk-free interest rate	2.33% to 2.70%	2.33% to 2.70%
Forfeiture rate	5% to 6%	5% to 6%

- (c) *Equity-settled share-based compensation expenses (net of the impact of reversals resulting from forfeiture of unvested options) recognized in the consolidated income statements during the Track Record Period are set out as follows:*

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Research and development costs	648	815	781	354	327
Sales and marketing costs	4,755	2,223	2,197	997	922
Administrative expenses	16,211	(2,764)	1,863	864	798
	21,614	274	4,841	2,215	2,047
Represented by:					
Staff costs (note 6(b))	21,396	(6)	4,691	2,163	2,031
Cost of employing consultants	218	280	150	52	16
	21,614	274	4,841	2,215	2,047

- (d) *Potential dilution effect on shareholdings upon listing*

The 2004 Modified Plan and the 2006 Option Plan will continue to be valid after listing. As at March 31, 2010, 1,009,760 options and 2,539,738 options were outstanding, and nil and 971,884 options under the 2004 Modified Plan and the 2006 Option Plan, respectively were exercisable.

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 statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Share premium	Contributed surplus	Translation reserve	Share-based compensation capital reserve	Retained earnings	Total
		RMB'000 Note 25(c)(i)	RMB'000 Note 25(d)(i)	RMB'000 Note 25(d)(ii)	RMB'000 Note 25(d)(iii)	RMB'000 Note 25(d)(iv)	RMB'000	RMB'000
At January 1, 2007		90	1	454,654	1,699	—	(75)	456,369
Shares repurchased during the year	25(c)(i)	(1)	—	—	—	—	—	(1)
Dividends approved in respect of the previous year		—	—	(226,129)	—	—	—	(226,129)
Equity-settled share-based transactions	25(b)(ii)	—	—	—	—	21,614	—	21,614
Shares issued under the share option scheme	24(c)	—	3,788	—	—	(3,122)	—	666
Total comprehensive income for the year	25(c)(iii)	—	—	—	5,344	—	166,442	171,786
At December 31, 2007 and January 1, 2008		89	3,789	228,525	7,043	18,492	166,367	424,305
Dividends approved in respect of the previous year		—	—	(136,632)	—	—	—	(136,632)
Equity-settled share-based transactions	25(b)(ii)	—	—	—	—	274	—	274
Shares issued under the share option scheme	24(c)	—	2,849	—	—	(2,495)	—	354
Expiry of share options	25(c)(iii)	—	—	—	—	(6,008)	6,008	—
Total comprehensive income for the year		—	—	—	1,628	—	124,609	126,237
At December 31, 2008 and January 1, 2009		89	6,638	91,893	8,671	10,263	296,984	414,538
Dividends approved in respect of the previous year		—	—	(91,893)	—	—	(123,819)	(215,712)
Equity-settled share-based transactions	25(b)(ii)	—	—	—	—	4,841	—	4,841
Shares issued under the share option scheme	24(c)	—	10,260	—	—	(6,249)	—	4,011
Expiry of share options	25(c)(iii)	—	—	—	—	(1,505)	1,505	—
Total comprehensive income for the year		—	—	—	47	—	205,795	205,842
At December 31, 2009		89	16,898	—	8,718	7,350	380,465	413,520

	Share capital	Share premium	Contributed surplus	Translation reserve	Share-based compensation capital reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 25(c)(i)	Note 25(d)(i)	Note 25(d)(ii)	Note 25(d)(iii)	Note 25(d)(iv)		
At January 1, 2010	89	16,898	—	8,718	7,350	380,465	413,520
Equity-settled share-based transactions	—	—	—	—	2,047	—	2,047
Shares issued under the share option scheme	—	354	—	—	(107)	—	247
Total comprehensive income for the period	—	—	—	5	—	(1,432)	(1,427)
At March 31, 2010	89	17,252	—	8,723	9,290	379,033	414,387
(Unaudited)							
At January 1, 2009	89	6,638	91,893	8,671	10,263	296,984	414,538
Equity-settled share-based transactions	—	—	—	—	2,215	—	2,215
Expiry of share options	—	—	—	—	(120)	120	—
Total comprehensive income for the period	—	—	—	(14)	—	(7,489)	(7,503)
At March 31, 2009	89	6,638	91,893	8,657	12,358	289,615	409,250

(b) Dividends

- (i) Dividends payable to ordinary shareholders of the Company attributable to the year/period

	Years ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Final dividend proposed after the balance sheet date	<u>136,632</u>	<u>215,712</u>	<u>171,203</u>

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

No interim dividends were declared by the Company during the three months ended March 31, 2009 and 2010.

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Final dividend in respect of the previous financial year, approved during the year/period	<u>226,129</u>	<u>136,632</u>	<u>215,712</u>	<u>—</u>	<u>—</u>

- (iii) Dividends on redeemable preference shares issued by the Company

Dividends payable to preference shareholders of the Company attributable to the year/period

	Years ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Final dividend proposed after the balance sheet date	<u>5,768</u>	<u>5,568</u>	<u>4,888</u>

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

No interim dividends were declared by the Company during the three months ended March 31, 2009 and 2010.

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year/period

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Final dividend in respect of the previous financial year, approved during the year/period	13,848	5,768	5,568	—	—

Dividends were distributed to holder of redeemable convertible preference shares (“Preference Shares”) in accordance with the terms of the Preference Shares as described in note 25(c)(ii). Dividends on Preference Shares are classified as finance costs (note 6(a)) in the income statements.

(c) *Share capital*

(i) Ordinary shares

	At December 31,			At March 31,				
	2007		2008		2009		2010	
	No. of shares '000	Amounts RMB'000	No. of shares '000	Amounts RMB'000	No. of shares '000	Amounts RMB'000	No. of shares '000	Amounts RMB'000
<i>Authorized:</i>								
Ordinary shares of USD0.0001 each	498,770	397	498,770	397	498,770	397	498,770	397
<i>Ordinary shares, issued and fully paid:</i>								
At January 1	114,174	90	112,943	89	113,064	89	113,504	89
Share repurchased (note)	(1,392)	(1)	—	—	—	—	—	—
Shares issued under share option schemes	161	—	121	—	440	—	13	—
At December 31/March 31	112,943	89	113,064	89	113,504	89	113,517	89

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Note: As part of the Reorganization, the Company repurchased 1,391,785 ordinary shares from MP Cayman in January 2007 and cancelled them on the same day.

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.

(ii) Redeemable convertible preference share

As part of the Reorganization, the Company issued 1,229,817 Preference Shares, par value of US\$0.0001, to Otsuka Pharmaceutical Co., Ltd ("Otsuka Pharmaceutical"), the then 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 is 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 any 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) 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.

(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 statements.

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	0.10% to 3.58%
Volatility	27.41% to 67.83%
Expected dividend yield	0% to 1.17%

The estimated fair value of the Preference Shares as at December 31, 2007, 2008 and 2009 and March 31, 2010 was RMB70,070,000, RMB72,078,000, RMB82,262,000 and RMB83,976,000 respectively.

Dividends declared and payable to the holder of Preference Shares are charged as finance costs (note 6(a)) in the income statements.

(iii) Shares issued under the share option schemes

Shares issued under the share option schemes during the Track Record Period are summarized as follows:

	No. of shares exercised	Consideration	Credited to/(transferred from)		
			Share capital	Share premium	Share-based compensation capital reserve
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Options exercised in:</i>					
May 2007	160,542	666	—	3,788	(3,122)
For the year ended					
December 31, 2007	160,542	666	—	3,788	(3,122)
April 2008	120,645	337	—	2,825	(2,488)
July 2008	908	17	—	24	(7)
For the year ended					
December 31, 2008	121,553	354	—	2,849	(2,495)
September 2009	5,985	112	—	156	(44)
October 2009	255,565	2,211	—	5,881	(3,670)
November 2009	10,489	197	—	271	(74)
December 2009	167,702	1,491	—	3,952	(2,461)
For the year ended					
December 31, 2009	439,741	4,011	—	10,260	(6,249)
January 2010	1,320	25	—	36	(11)
February 2010	3,218	60	—	86	(26)
March 2010	8,635	162	—	232	(70)
For the three months ended					
March 31, 2010	13,173	247	—	354	(107)

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

Exercise period	Exercise price RMB	At December 31,			At March 31,
		2007 Number of options	2008 Number of options	2009 Number of options	2010 Number of options
2004 Modified Plan					
<i>Executives</i>					
March 1, 2007 to February 29, 2014	3.14	250,835	—	—	—
<i>Executives, employees and consultants</i>					
To be exercised upon a successful IPO	0.60 to 1.94	1,009,760	1,009,760	1,009,760	1,009,760
		<u>1,260,595</u>	<u>1,009,760</u>	<u>1,009,760</u>	<u>1,009,760</u>
2006 Option Plan					
<i>Executives</i>					
April 26, 2007 to January 24, 2017 ..	9.81 to 21.30	3,616,010	1,034,666	419,664	419,664
April 1, 2008 to April 1, 2017	21.26	135,000	115,000	31,000	31,000
June 14, 2007 to September 22, 2017	32.41	50,000	50,000	50,000	50,000
July 25, 2008 to July 24, 2018	29.01	—	270,000	270,000	270,000
June 23, 2009 to December 31, 2018	29.11	—	420,000	420,000	420,000
December 31, 2010 to October 20, 2019 ..	20.91	—	—	600,000	600,000
<i>Employees</i>					
April 23, 2007 to December 31, 2013	21.25	702,014	625,475	588,954	574,074
February 6, 2010 to February 5, 2011 ..	29.06	—	—	25,000	25,000
<i>Consultants</i>					
May 16, 2008 to June 30, 2017	32.63	100,000	100,000	100,000	100,000
To be exercised upon a successful IPO	32.41	50,000	50,000	50,000	50,000
		<u>4,653,024</u>	<u>2,665,141</u>	<u>2,554,618</u>	<u>2,539,738</u>
		<u>5,913,619</u>	<u>3,674,901</u>	<u>3,564,378</u>	<u>3,549,498</u>

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 Financial Information.

(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 as 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 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).

(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.

MP Shanghai transferred RMB13,828,000 from its retained earnings to the statutory general reserve during 2007. The statutory general reserve of MP Shanghai at December 31, 2007 amounted to RMB49,636,000 and had reached 50% of its share capital. There were no further appropriations to the statutory general reserve during the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010.

(e) *Distributability of reserves*

The aggregate amount of reserves available for distribution to equity shareholders of the Company, at December 31, 2007, 2008 and 2009 and March 31, 2010 were RMB424,216,000, RMB414,449,000, RMB413,431,000 and RMB414,298,000 respectively.

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 December 31, 2009 and March 31, 2010.

(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, less unaccrued proposed dividends. On this basis, the amount of capital employed was RMB314,373,000, RMB283,649,000, RMB298,443,000 and RMB481,409,000 at December 31, 2007, 2008 and 2009 and March 31, 2010 respectively.

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 December 31, 2007, 2008 and 2009 and March 31, 2010, the Group has certain concentration credit risk that 34%, 26%, 22% and 27% of the total trade and other receivables were due from the Group's largest customer and 77%, 62%, 49% and 63% 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.

(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 December 31, 2007						
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	25,764	28,315	21,725	726	2,087	3,777
Trade and other payables	156,814	156,814	156,814	—	—	—
	<u>182,578</u>	<u>185,129</u>	<u>178,539</u>	<u>726</u>	<u>2,087</u>	<u>3,777</u>
At December 31, 2008						
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	25,248	27,620	21,756	711	2,042	3,111
Trade and other payables	68,945	68,945	68,945	—	—	—
	<u>94,193</u>	<u>96,565</u>	<u>90,701</u>	<u>711</u>	<u>2,042</u>	<u>3,111</u>

At December 31, 2009						
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	4,579	5,864	711	696	1,996	2,461
Trade and other payables	152,260	152,260	152,260	—	—	—
	<u>156,839</u>	<u>158,124</u>	<u>152,971</u>	<u>696</u>	<u>1,996</u>	<u>2,461</u>
At March 31, 2010						
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	104,614	105,686	100,707	692	1,985	2,302
Trade and other payables	54,990	54,990	54,990	—	—	—
	<u>159,604</u>	<u>160,676</u>	<u>155,697</u>	<u>692</u>	<u>1,985</u>	<u>2,302</u>

(ii) The Company

At December 31, 2007			
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	RMB'000	RMB'000	RMB'000
Other payables	143,662	143,662	143,662
	<u>143,662</u>	<u>143,662</u>	<u>143,662</u>
At December 31, 2008			
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	RMB'000	RMB'000	RMB'000
Other payables	36,467	36,467	36,467
	<u>36,467</u>	<u>36,467</u>	<u>36,467</u>
At December 31, 2009			
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	RMB'000	RMB'000	RMB'000
Other payables	129,653	129,653	129,653
	<u>129,653</u>	<u>129,653</u>	<u>129,653</u>
At March 31, 2010			
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	RMB'000	RMB'000	RMB'000
Other payables	23,901	23,901	23,901
	<u>23,901</u>	<u>23,901</u>	<u>23,901</u>

The above analyses do not include the balances of redeemable convertible preference shares which are stated at fair value of RMB70,070,000, RMB72,078,000, RMB82,262,000 and RMB83,976,000 as at December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. 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 Track Record Period, thus has no exposure to interest rate risk.

(i) Interest rate profile

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

	At December 31,						At March 31,	
	2007		2008		2009		2010	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
<i>Fixed rate instruments</i>								
Deposits with banks with original maturities over three months	—	—	3.03%	205,084	3.79%	191,000	2.24%	175,000
Fixed rate borrowings	6.03%	(20,329)	7.56%	(20,235)	—	—	4.76%	(100,000)
		<u>(20,329)</u>		<u>184,849</u>		<u>191,000</u>		<u>75,000</u>
<i>Variable rate instruments</i>								
Deposits with other financial institutions	2.13%	143,051	—	—	—	—	—	—
Cash at banks and in hand	0.36%	166,801	0.67%	66,461	0.67%	90,194	0.36%	101,983
Pledged deposits with banks	0.36%	2,940	0.67%	2,485	0.67%	2,595	0.36%	2,595
Variable rate borrowings	3.10%	(5,435)	3.10%	(5,013)	3.10%	(4,579)	3.10%	(4,614)
		<u>307,357</u>		<u>63,933</u>		<u>88,210</u>		<u>99,964</u>
Fixed rate borrowings as a percentage of total borrowings		<u>78.9%</u>		<u>80.1%</u>		<u>0.0%</u>		<u>95.6%</u>

(ii) Sensitivity analysis

At December 31, 2007, 2008 and 2009 and March 31, 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 year/period and retained earnings by approximately RMB2,842,000, RMB589,000, RMB721,000 and RMB200,000 respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the year/period (and retained earnings) that would arise assuming that the change in interest rates had occurred at the balance sheet dates 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 dates. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet dates, the impact on the Group's profit for the year/period (and retained earnings) is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis during the Track Record Period.

(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 ("USD").

(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 dates. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in RMB)							
	At December 31,						At March 31,	
	2007		2008		2009		2010	
	USD	Euros	USD	Euros	USD	Euros	USD	Euros
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Trade and other receivables	10,474	3,959	19,544	244	32,006	3,101	28,307	1,863
Cash and cash equivalents	7,732	63	5,158	441	816	286	6,506	469
Trade and other payables	(1,056)	(1,269)	(748)	(897)	(5,873)	(199)	(1,874)	(422)
Amounts due from/to group companies	18,992	—	15,467	(142)	15,607	(272)	16,031	—
Amounts due from related parties . .	1,969	—	6,758	—	14,701	—	12,298	—
Net exposure arising from recognized assets and liabilities . .	<u>38,111</u>	<u>2,753</u>	<u>46,179</u>	<u>(354)</u>	<u>57,257</u>	<u>2,916</u>	<u>61,268</u>	<u>1,910</u>

The Company

The functional currency of the Company is USD. 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 dates.

(ii) Sensitivity analysis

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

	At December 31,				At December 31,		At March 31,	
	2007		2008		2009		2010	
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained earnings RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained earnings RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained earnings RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit for the period and retained earnings RMB'000
USD (against RMB)	7%	2,468	6%	2,521	5%	2,433	6%	3,125
	(7)%	(2,468)	(6)%	(2,521)	(5)%	(2,433)	(6)%	(3,125)
Euros (against RMB)	4%	(106)	10%	(622)	2%	(7)	2%	(29)
	(4)%	106	(10)%	622	(2)%	7	(2)%	29
Euros (against USD)	10%	414	3%	144	2%	50	2%	53
	(10)%	(414)	(3)%	(144)	(2)%	(50)	(2)%	(53)

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 year/period and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet dates 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 dates, 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 financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis during the Track Record Period.

(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 this Financial Information, 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 statements. The estimated fair value of the Preference Shares as at December 31, 2007, 2008 and 2009 and March 31, 2009 and 2010 were RMB70,070,000, RMB72,078,000, RMB82,262,000, RMB77,333,000 and RMB83,976,000 respectively. The difference in fair values of RMB28,680,000, RMB2,008,000, RMB10,184,000, RMB5,255,000 and RMB1,714,000 represents the fair value adjustment to the Preference Shares were charged to finance costs during the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 (unaudited) and March 31, 2010 respectively.

All other financial instruments are carried at cost or amortized cost at amounts not materially different from their fair values as at December 31, 2007, 2008 and 2009 and March 31, 2010.

27 Commitments

(a) Capital commitments

Capital commitments outstanding at the balance sheet dates not provided for in the Financial Information are as follows:

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	7,798	6,821	24,271	24,994
Authorized but not contracted for	—	—	182,628	167,944
	<u>7,798</u>	<u>6,821</u>	<u>206,899</u>	<u>192,938</u>

The capital commitments authorized but not contracted for as at December 31, 2009 and March 31, 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 of properties under non-cancellable operating leases are payable as follows:

The Group

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,774	1,134	1,005	989
After one year but within five years	1,101	108	996	742
	<u>2,875</u>	<u>1,242</u>	<u>2,001</u>	<u>1,731</u>

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 December 31, 2007, 2008 and 2009 and March 31, 2010.

28 Related party transactions**(a) Name and relationship with related parties**

During the Track Record Period, transactions with the following parties are considered as related party transactions:

<u>Name of party</u>	<u>Relationships</u>
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
Qingdao Hi-Tech Trading Company (“Qingdao Hi-Tech”)	Company owned by the Group’s Chairman’s brother who held 25% of the equity interest in Qingdao Hi-Tech

(b) Significant related party transactions

Particulars of significant related party transactions during the Track Record Period are as follows:

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
<i>Recurring transactions:</i>					
Sales to JIMRO	1,116	8,397	3,953	736	861
Sales to Thai Otsuka	4,731	5,435	14,283	1,941	653
Sales to Otsuka Philippines	1,940	2,028	3,508	1,227	771
Sales to Otsuka Indonesia	4,551	3,439	5,392	1,345	1,142
Sales to Otsuka Pakistan	1,726	3,451	3,433	887	1,744
Sales to Qingdao Hi-Tech	937	—	—	—	—
	<u>15,001</u>	<u>22,750</u>	<u>30,569</u>	<u>6,136</u>	<u>5,171</u>
Purchases from Qingdao Hi-Tech	<u>5,194</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(c) Amounts due from related parties

	At December 31,			At March 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Trade receivables from:</i>				
Sales to JIMRO	148	2,609	1,241	861
Sales to Thai Otsuka	208	1,694	9,859	7,625
Sales to Otsuka Philippines	252	567	618	771
Sales to Otsuka Indonesia	452	538	2,077	1,142
Sales to Otsuka Pakistan	909	1,350	906	1,899
Sales to Qingdao Hi-Tech	235	—	—	—
	<u>2,204</u>	<u>6,758</u>	<u>14,701</u>	<u>12,298</u>

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:

	Years ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other benefits	5,815	6,588	4,721	1,211	1,227
Retirement scheme contributions	64	74	129	29	33
Discretionary bonuses	3,000	3,270	4,366	3,850	4,406
Share-based compensation	16,868	2,949	1,714	1,388	634
	<u>25,747</u>	<u>12,881</u>	<u>10,930</u>	<u>6,478</u>	<u>6,300</u>

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

29 Business combination

On April 21, 2008, MP Shanghai entered into an acquisition agreement (the "Acquisition Agreement") with the then shareholders of Beijing PanGeRui Medical Device Company ("Beijing Pangerui"), pursuant to which MP Shanghai agreed to pay the selling shareholders a cash consideration of RMB8,000,000 and certain contingent payments to acquire the entire equity interest of Beijing Pangerui as further explained below. Beijing Pangerui subsequently changed its name to MP Lifesciences Beijing.

The above acquisition was completed on June 2, 2008 when the equity transfer procedures were completed.

The contingent consideration is estimated to be RMB2,520,000 by MP Shanghai in accordance with the Acquisition Agreement, pursuant to which MP Shanghai agreed to pay to the selling shareholders (i) an additional RMB1,000,000 upon MP Lifesciences Beijing obtaining the registration certificate for a medical device, which MP Shanghai expected to be completed by June 2010; and (ii) 6% commission on the sales values of the products, subject to a minimum sales volume requirement, for 16 consecutive quarters from the date of acquisition. The total estimated contingent consideration of RMB2,520,000 is based on these potential additional payments, discounted at the Group's weighted average cost of capital.

On March 4, 2009, MP Shanghai and the selling shareholders agreed to cancel the minimum sales volume requirement. This amendment to remove the minimum sales requirement has no significant effect to the original projected sales volume, thus no adjustment was made to the original estimation of the contingent consideration.

For the year ended December 31, 2008, MP Lifesciences Beijing contributed revenue of RMB714,000 and a net loss of RMB491,000 to the Group since the date of acquisition. If the acquisition had occurred on January 1, 2008, the Group's revenue and net profit for the year ended December 31, 2008 would have been RMB485,642,000 and RMB178,571,000 respectively.

Acquiree's net assets at the acquisition date:

	Pre-acquisition carrying amount	Fair value adjustments	Recognized values on acquisition
	RMB'000	RMB'000	RMB'000
Property, plant and equipment (note 12)	33	—	33
Intangible assets (note 13)	—	10,758	10,758
Inventories	506	—	506
Trade and other receivables	195	—	195
Cash at bank and in hand	6	—	6
Trade and other payables	(394)	—	(394)
Deferred tax liabilities (note 22(b))	—	(2,689)	(2,689)
Net identifiable assets	346	8,069	8,415
Goodwill arising from the acquisition date (note 14)			2,105
Total purchase consideration			<u>10,520</u>
Satisfied by:			
Cash			<u>10,520</u>
Cash at bank and in hand acquired			6
Cash consideration paid/payable			<u>(10,520)</u>
Net cash outflow in respect of the acquisition of a subsidiary			<u>(10,514)</u>
Fixed consideration paid in 2008 less cash at bank and in hand acquired			(4,494)
Fixed consideration paid in 2009			(3,500)
Contingent consideration paid in 2009			(29)
Contingent consideration to be paid after December 31, 2009/March 31, 2010			<u>(2,491)</u>
Net cash outflow in respect of the acquisition of a subsidiary			<u>(10,514)</u>

The fair value of diabetes technology amounting to RMB8,128,000 was estimated as the present value of its excess return, discounted at its weighted average cost of capital. The fair value of the license amounting to RMB2,630,000 has been determined based on a replacement cost basis.

30 Accounting estimates and judgments

Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

(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 dates 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 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 judgment 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.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective during the Track Record Period

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 during the Track Record Period and which are relevant to the Group's operations but have not been adopted in the Financial Information:

	<u>Effective for accounting periods beginning on or after</u>
Improvements to HKFRSs 2010	July 1, 2010 or January 1, 2011
HKFRS 9, <i>Financial instruments</i>	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.

32 Immediate and ultimate controlling party

At March 31, 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.

C Subsequent events

The following significant events took place subsequent to March 31, 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 USD3.062 per share. The above share options are vested 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 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)). It has not been recognized as a liability at March 31, 2010.
- 3) On September 3, 2010, the Board approved a 10-for-1 share split of the Company's ordinary shares and the Preference Shares conditional on the completion of the Global Offering. The historical shares, options and per share data included in this report have not been adjusted to give effect to the conditional share split.

D Subsequent financial statements

No audited financial statements have been prepared by the Company, its subsidiaries the Group in respect of any period subsequent to March 31, 2010.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong