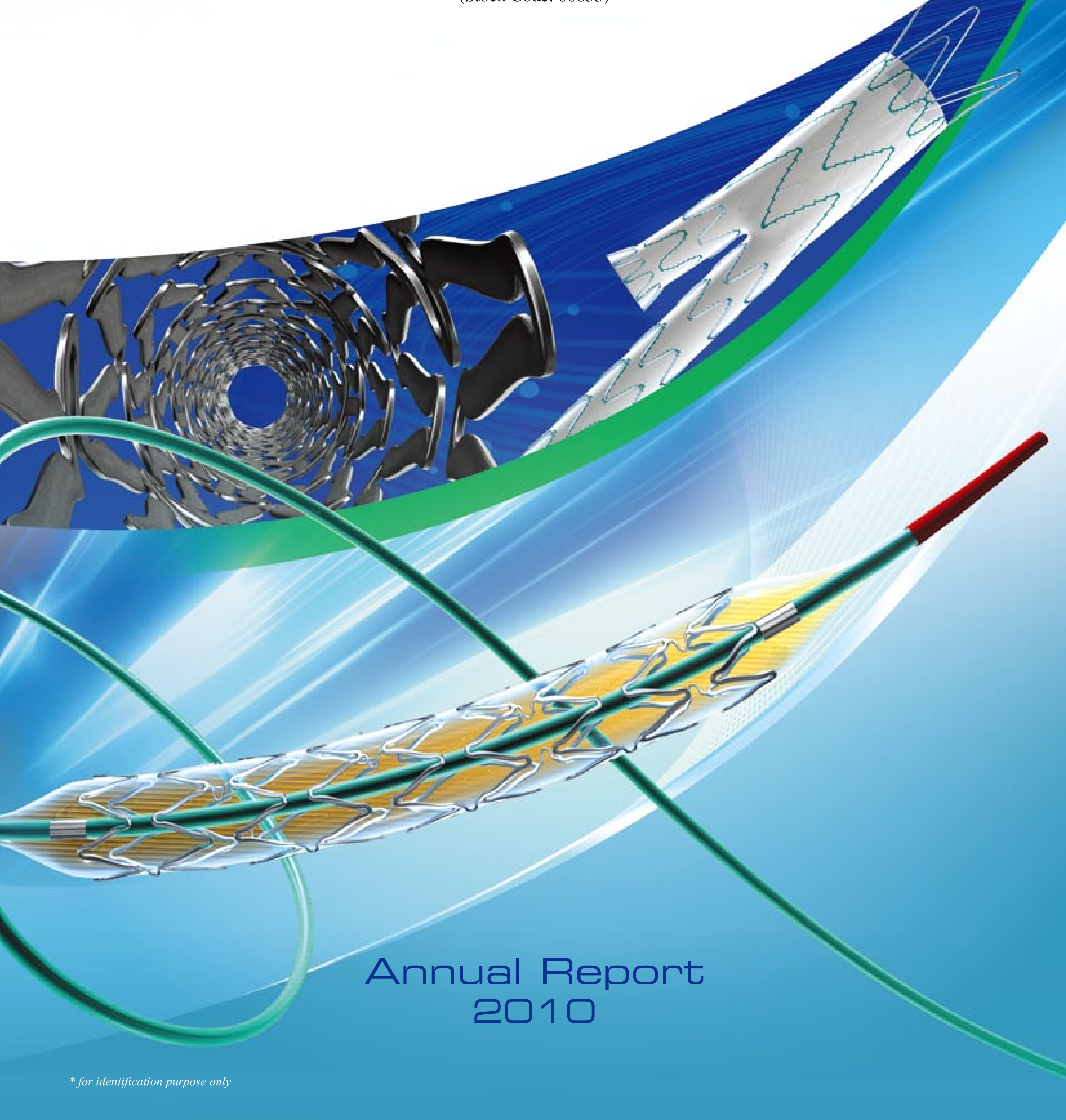
MicroPort Scientific Corporation

微創醫療科學有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00853)



Annual Report 2010

** for identification purpose only*

Contents

MicroPort Scientific Corporation
2010 Annual Report

Corporate Information

DIRECTORS

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

Non-Executive Directors
Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Xiaolong Liu

Independent Non-Executive Directors
Mr. Zezhao Hua
Mr. Jonathan H. Chou
Dr. Guoen Liu

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

Dr. Zhaohua Chang
Ms. Yee Har Susan Lo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

501 Newton Road
Zhangjiang Hi-Tech Park
Shanghai 201203
The PRC

PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

KPMG

COMPLIANCE ADVISER

TC Capital Asia Limited

LEGAL ADVISER

Jun He Law Offices (HK Law)

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.microport.com.cn

PRINCIPAL BANKERS

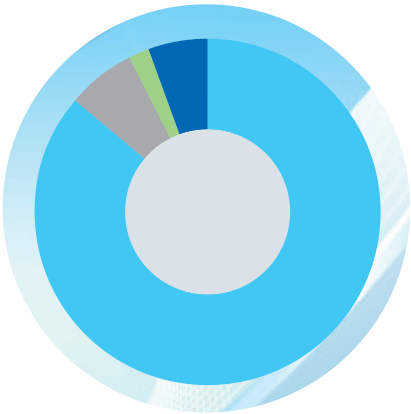
Bank of China (Hong Kong) Limited
China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
China CITIC Bank Shanghai Zhangjiang Sub-Branch
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

Financial Summary

	Financial year ended 2010 RMB'000	2009 RMB'000	Change %
Revenue	**727,718**	560,726	29.8%
Gross profit	**629,513**	482,689	30.4%
Profit for the year	**240,101**	186,373	28.8%
Earnings per share — Basic (RMB)	**0.20**	0.16	25.0%
Diluted (RMB)	**0.20**	0.16	25.0%

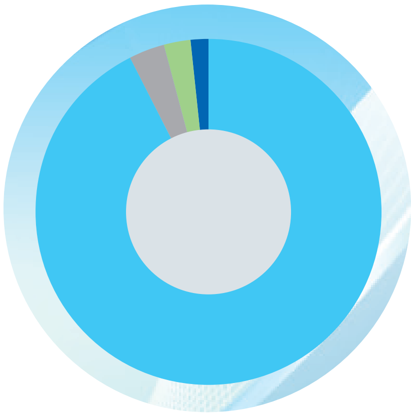
Revenue Analysis

By Product



- Drug eluting stents 86.3%
- TAA/AAA stent grafts 6.4%
- Bare metal stents 2.0%
- Others 5.3%

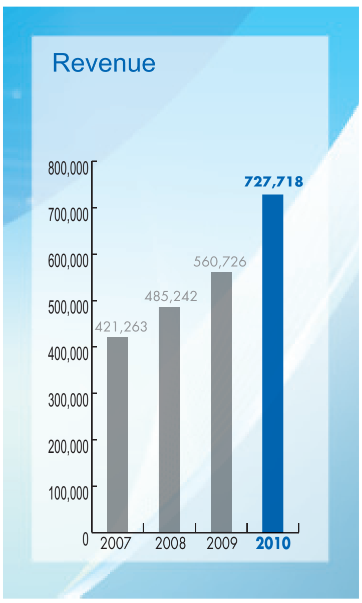
By Geographical region

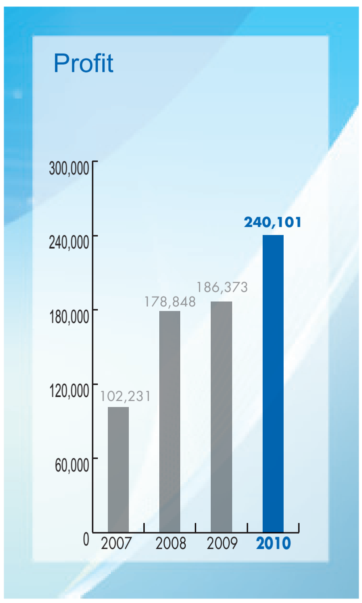


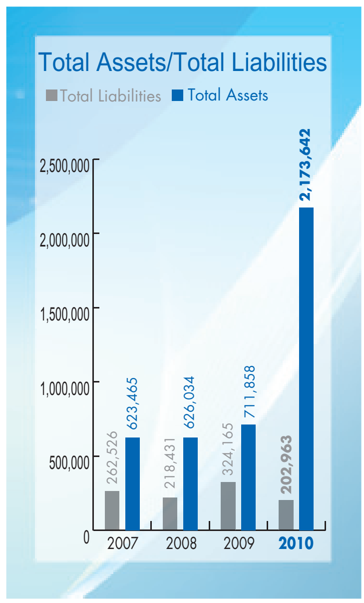
- PRC 92.5%
- Asia ex-PRC 3.4%
- South America 2.5%
- Europe 1.6%

Four Years Financial Summary

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Assets				
Non-current assets	**306,782**	227,557	188,534	125,447
Current assets	**1,866,860**	484,301	437,500	498,018
Total assets	**2,173,642**	711,858	626,034	623,465
Liabilities				
Current liabilities	**163,446**	261,411	174,135	250,136
Non-current liabilities	**39,517**	62,754	44,296	12,390
Total liabilities	**202,963**	324,165	218,431	262,526
Total equity	**1,970,679**	387,693	407,603	360,939







Chairman's Statement

Dr. **Zhaohua Chang**

In the Chinese tradition, "12 years" means a new stage of growth. In 2010, MicroPort Scientific Corporation (the "Company") and its subsidiaries (collectively the "Group") celebrated our 12th birthday. And 2010 is also the year whereby the Company was successfully listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Hence, we really entered into a new stage of growth by participating in the capital market, together with domestic and international competitors, to be observed and supervised by the capital market.

With an ambition to establish a brand name "Where Physician and Patient Always Come First", we have strived to save lives and improve the health and quality of life of patients through unsurpassed insights and innovation in state-of-the-art technology of medical devices since our establishment, with the vision to be a world-class Chinese medical device company in minimally invasive interventional medicine.

With Quality, Integrity, Innovation, Leadership, Accountability, Collaboration, Dedication and Efficiency as our core values, we had a rewarding 2010 by experiencing revenue exceeding US$100 million, diversification, conglomeratization, and improvement in our capabilities in research and development, sales and marketing, manufacturing as well as the overall management.

1. LEADING POSITION IN THE MARKET AND STRONG BRAND RECOGNITION

We are the first China-based manufacturer of interventional cardiovascular products. After 12 years of development, we have become a leading developer, manufacturer and marketer of such medical devices in China. For the year 2010, we managed to maintain our leading position in the coronary stent market, resulting in greater awareness of our "MicroPort" brand. This benefits not only from the continuous growth of the Chinese medical devices market, but also from our initiative in pursuit of improving product and customer service quality.

2. ESTABLISHED DISTRIBUTION NETWORK AND STRONG SALES AND MARKETING CAPABILITY

Due to our early entry into the Chinese minimally invasive interventional device market, we have built an established distribution network covering over 1,000 hospitals in China, as well as more than 20 countries in Asia Pacific (excluding China), Europe and South America. Simultaneously, our highly trained marketing team established relationships with physicians through regular visits, sponsorship of seminars, jointly research and development projects and physician education programs, and after sales services to strengthen our product awareness.

3. DIVERSIFIED PRODUCTS OFFERING WITH ROBUST PRODUCT PIPELINE

Our products offering covers cardiovascular products, neurovascular products, Thoracic Aortic Aneurysm ("TAA")/Abdominal Aortic Aneurysm ("AAA") stent grafts, peripheral products, diabetes devices, electrophysiology ("EP") devices and other products. We established our fourth wholly owned subsidiary, Shanghai MicroPort EP MedTech Co., Ltd. in 2010 to operate our EP product line independently with a specialized team. This accelerated the diversification of our products offering.

Besides our next generation drug-eluting stent, Firehawk, we still have other minimally invasive interventional devices in different stages of research and development. Such pipeline lays a solid foundation for sustainable development of the Group.

4. OUTSTANDING RESEARCH AND DEVELOPMENT CAPABILITY AND EFFECTIVE MANAGEMENT OF INTELLECTUAL PROPERTY ("IP")

Having a highly experienced research and development team, we have been able to innovate constantly and develop state-of-the-art medical devices and technologies. Since our establishment, we have continually increased the investment in research and development, which accounted for more than 15% of our revenues in the last 2 years. Accumulating for the future is the key to our growth in the highly competitive market.

IP is a vital resource in improving core competitiveness. In 2010, we have also made significant achievements in IP management. As of December 31, 2010, we received a total of 62 patents in China and 2 patents in the European Union. With regards to trademark registration, a special note should be taken of our "MicroPort" trademark being successfully registered in the United States as well as in Hong Kong in 2010. All these efforts safeguard our IP and raise the brand recognition.

5. HIGH QUALITY MANUFACTURING PLATFORM AND STRICT QUALITY MANAGEMENT

During 2010, we streamlined our manufacturing process resulting in evident improvement in our production efficiency and flexibility of our manufacturing platform. This allowed us to take advantage of market opportunities, introduce new products in a timely manner and constantly respond to the changing market demands.

Product quality is critical in the medical device industry. For the year 2010, we continuously devoted significant resources to quality management in order to build a more comprehensive quality management system. This will provide quality monitoring at every stage of our manufacturing processes to ensure that the product quality is in line with our quality management standards, and to provide doctors and patients with products of the highest quality.

6. IMPROVED CORPORATE GOVERNANCE STRUCTURE AND DECENTRALIZED MANAGEMENT SYSTEM

In 2010, we improved our corporate governance and management structure pursuant to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). With the increase of board members, the establishment of board committees, the reorganization of the executive committee, the Company's management became more transparent and delegation of authority much clearer resulting in more effective operations.

We have always advocated the decentralized management system. In 2010, each subsidiary was given the opportunity to adjust its business model in accordance with the uniqueness of its product line, thus increasing the Group's effectiveness as a whole.

7. BUILDING TEAMS OF TALENT FOR THE FUTURE

Talent, especially management and technical talent, form the basis of all competition. In 2010, we began building teams of talent by continuously exploring the way to better talent management, with the hope of laying the foundation for the next decade. During 2010, the proportion of technical employees increased, and the overall quality of our employees improved.

8. ACTIVELY CARRYING OUT SOCIAL RESPONSIBILITIES AND FULFILLING SOCIAL PROMISES

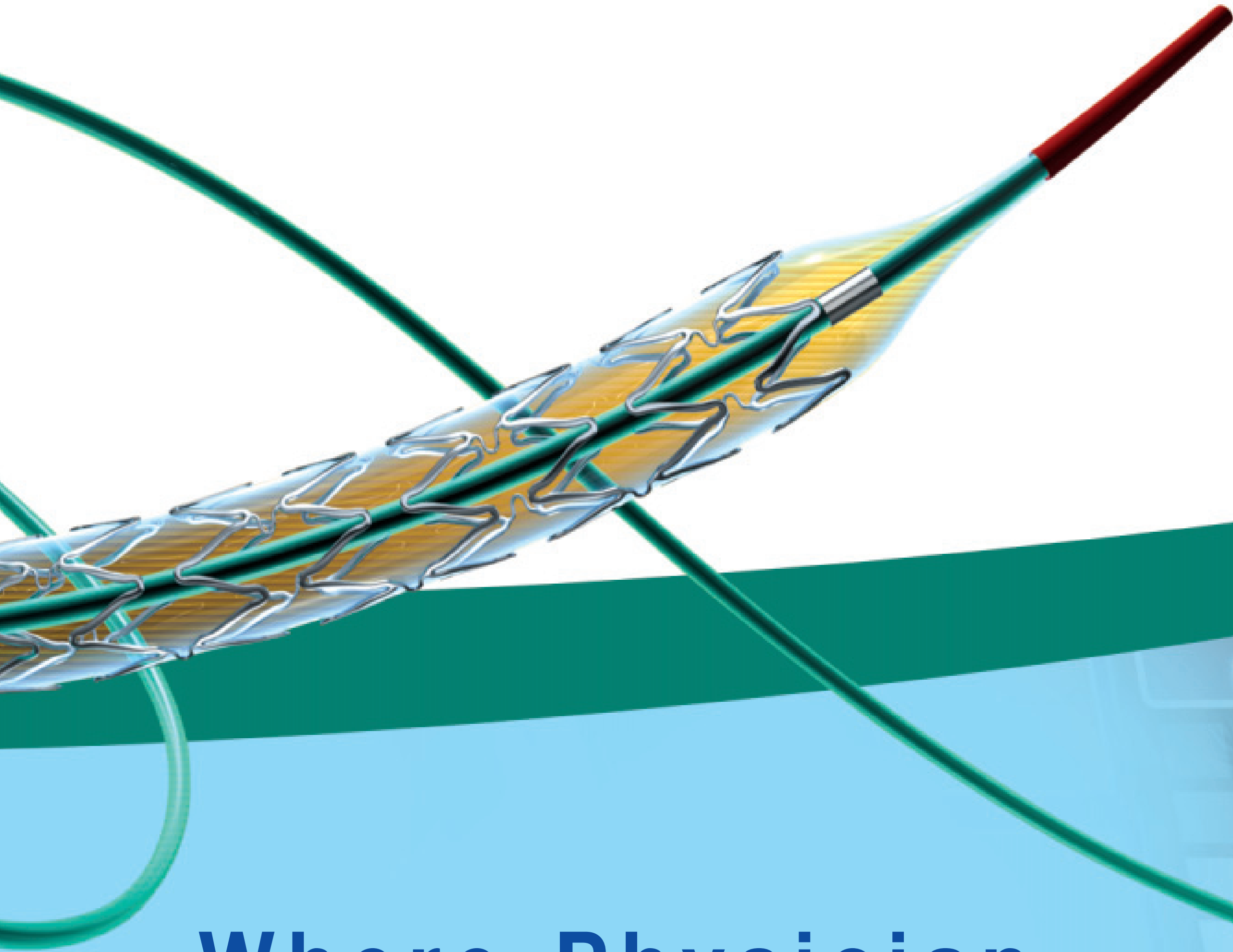
"Accountability" is one of our core values. Carrying out social responsibilities, fulfilling social promises, building an image of a premier corporate citizen, creating a win-win situation for our shareholders, customers, employees and other stakeholders, have always been our persistent belief. In 2010, we donated to the victims of the Qinghai earthquake, set up the MicroPort Hope Primary School, and provided assistance to impoverished patients, and hence displayed a strong sense of social responsibility. But among others, the most important is our continual development of innovative solutions, which can save lives and improve the quality of life, thus contributing to the society as a whole.

Looking forward into the coming 2011, we will continue to improve our brand awareness, strengthen our market position, develop new medical technologies, and explore new business opportunities. Also, as the opportunity arises and when the timing is right, we will selectively open up new international markets, carefully accelerate mergers and acquisitions and explore collaboration opportunities with international medical giants so as to assimilate ourselves into the international mainstream of medical devices.

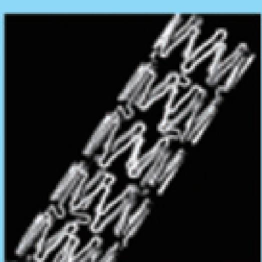
2010 was a significant milestone in the history of the Group, for our efforts in the past 12 years were recognized and affirmed by the capital market. This is also a new start, whereby more attention and supervision will be expected from the investors. This will spur the Group to continue its progress, innovations, maintain and improve its competitiveness and momentum forward. From this new starting point, we will bring quality and scale of our business to new heights, as well as the business management into a new realm, so as to reap sustainable and stable returns for our shareholders.

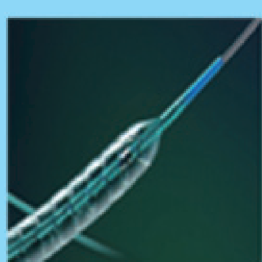
Dr. Zhaohua Chang
Chairman

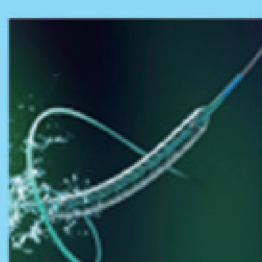
Shanghai, March 22, 2011



Where Physician and Patient Always Come First







Management Discussion and Analysis

BUSINESS REVIEW

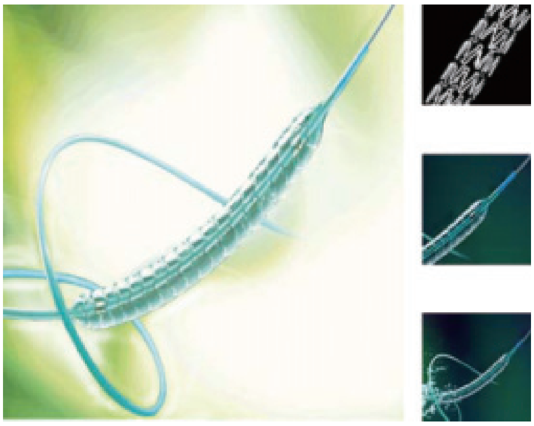
Overview

We are a leading developer, manufacturer and marketer of medical devices in the PRC, focusing primarily on minimally invasive interventional products, such as drug-eluting stents, for the treatment of vascular diseases and disorders. As of December 31, 2010, our products offering includes 20 products, such as cardiovascular and other vascular devices, as well as EP and diabetes devices. Our principal product is Firebird 2, our second generation drug-eluting cobalt-chromium stent.

Products

Cardiovascular Devices

Our Firebird 2, a rapamycin-eluting cobalt-chromium coronary stent, remained as the top selling product of the Group in 2010. We have successfully marketed our Firebird 2 both in the PRC and overseas, and we expect its sales to increase as better healthcare becomes more affordable to the general public in China with increasing prosperity and awareness among the Chinese people. International sales are also expected to increase as we increase our marketing efforts in the international market.



We also market bare-metal stents in the international market where there is still a demand for such products. Although our current stent offerings provide one of the best solutions to vascular diseases, we still invest significant time and resources in developing our next generation drug-eluting stent, codenamed Firehawk, which uses a biodegradable drug coating to improve the quality of life of cardiovascular patients.

During 2010, we got the 6-month results of Focus, the international, forward-looking multicentre post-launch clinical trial, aiming to assess the clinical effects of Firebird 2, which shows that our safety and efficacy targets established in the clinical trial protocol were achieved.

In March 2010, we launched a new international, forward-looking multicentre post-launch clinical trial, Fire2-Diabetes, to assess the safety and efficacy of Firebird 2 in treating complex coronary lesions in diabetes. We expect to have more than 60 trial centers, both domestic and overseas, with about 1300 patients enrolled. The results from Fire2-Diabetes may also provide more evidence to the safety and efficacy of Firebird 2.

Management Discussion and Analysis

Intracranial stents

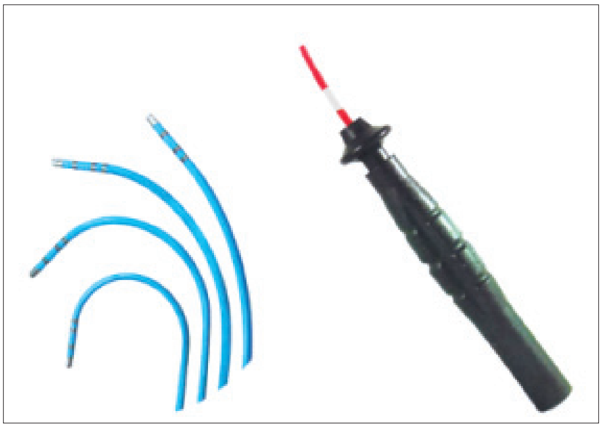
Apollo, our intracranial stent, provides one of the best hopes to patients with brain strokes, giving them an opportunity to lead a normal life. This cutting edged technology means that it is now possible to open up a blocked or narrowed blood vessel in the brain through a minimally invasive procedure. We have been actively promoting this product and procedure to hospitals in big cities in the PRC, where doctors are better trained for these procedures. Sales of our Apollo grew by more than 56% in 2010 as doctors become more knowledgeable and familiar with our intracranial stent. As such, during 2010, we stepped up our efforts in conducting training programs to help doctors to have a better understanding and be better trained in implanting our Apollo stents. We foresee a great potential in the future for Apollo as intracranial stenting procedures become more common in hospitals across China.

TAA/AAA Stent Grafts

In 2010, our TAA/AAA products also recorded growth of almost 60%. Stent graft procedures are still relatively uncommon in hospitals of smaller cities in the PRC. Therefore, we have focused our continuing education and training efforts mainly in big cities within the PRC where hospitals are more equipped and staffed for these procedures. As more stent graft surgeries are performed, doctors are becoming more skilled in these procedures, which leads to a higher success rate and a lower procedure risk.

EP Devices

Our ablation catheter FireMagic, which was commercially launched in July 2010, is slowly making inroad into the hospitals. We expect sales from FireMagic to generate a better contribution to our revenues in 2011. Simultaneously, we are planning to launch our EasyFinder diagnostic catheter, which was approved by the State Food and Drug Administration of the PRC ("SFDA") in October 2010, as well as developing a full series of EP devices. In December 2010, we completed the first human case for our EP mapping system and irrigated RF ablation catheter, which is a key step in developing this line of our business.



Management Discussion and Analysis

Diabetes Devices

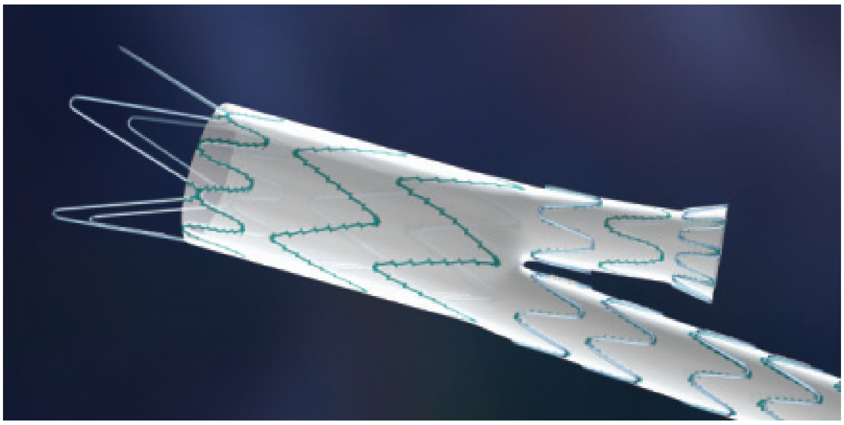
La Fenice, our insulin pump is gradually being marketed to our networks of hospitals that we have built over the years. Together with the marketing efforts, we are making continuous improvements to our call center for the customers of insulin pumps and have become the industry-leading service platform staffed with medical-background customer service professionals. In September 2010, our call center won the Award of "2010 China (Asia-Pacific) Best Service Call-Center" during the 2010 Call Center Industry Summit, sponsored by the China Call-Center & CRM Association (CNCCA) and organized by CTI Forum with support from the Ministry of Industry and Information Technology of the PRC, along with ICBC, Ctrip, Huawei Technologies, Dell and other 35 corporations. Although the sales of La Fenice are not significant compared to the Group's revenue, we believe that good service can enhance the brand recognition and awareness among patients and in the long run increase the sales of our products.

Orthopedic Devices

In November 2010, we managed to obtain CE certificates issued by TÜV SÜD Product Service GmbH ("TÜV SÜD") of four orthopedic products, namely Firefox™, our spine posterior fixation system, Antelope™, our anterior cervical plate system, Firestone™, our cervical fusion device and Futago™, our thoracic and lumbar fusion device, which were independently developed by the Group for spine reshaping, spine fusion and fixation. We also started the patient enrollment of the clinical trial of Futago™ in June 2010. While we do not expect to receive the approval from SFDA of our orthopedic devices soon, we do expect commercial launch of them in the international market in 2011.

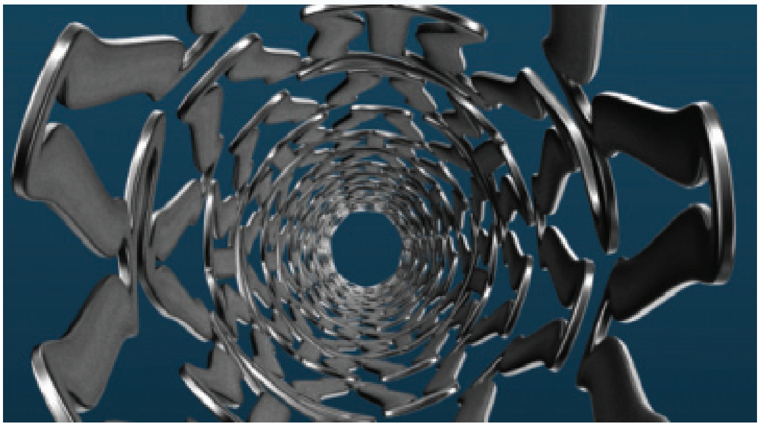
Manufacturing

In 2010, we reorganized the layout of our principal manufacturing facility in Zhangjiang Hi-Tech Park, Shanghai and streamlined our manufacturing process. Some of the supporting functions, such as packaging and raw material preparation, were relocated to an adjacent leased factory, thereby freeing up additional space for manufacturing the key components. Also the working procedures were restructured to be more flexible and adaptable to the market demand. This resulted in a great improvement of our production efficiency and quality.



Management Discussion and Analysis

Sales, Marketing and Distribution Network



While our products are mainly sold through a network of independent distributors to the hospitals, we actively market and provide product education to doctors, through continuously interacting with them. Utilizing our sales and marketing team of about 150 employees as of December 31, 2010, we actively organized training for hospitals and approached new hospitals by providing training to their doctors. As more and more hospitals in medium and smaller cities in the PRC become better equipped and staffed, we expect to market our products to these hospitals. As for international markets, we are still actively promoting our products, particularly in Mexico and India, where we are in the process of obtaining approval for our products.

Competition

We are the leader among the PRC companies manufacturing vascular stents. While we anticipate increasing competition from other manufacturers in the PRC, we are confident of maintaining our market position as the barriers of entry into our business remain high in terms of technology and approval process.

The PRC government is actively promoting and implementing certain health care reforms to lower medical cost so as to allow its general public access to better health care. We believe health care reform is inevitable as the governments of every country discuss similar issues regarding health care. We are not particularly concerned about these developments as we are well positioned to face these hurdles. Just like the Chinese saying that the word “Crisis” is made up of “Danger and Opportunity”, we foresee “Crises” like these will provide an opportunity for us to flourish as our superior products and cost structure will allow us to gain and grow an even bigger market share by weeding out weaker competitors in the market.

Research and Development

Research and development is the core and strength of our Group. Having highly skilled teams of research and development with more than 180 employees as at December 31, 2010, we continually develop and test new designs and innovations to keep ourselves at the forefront of medical science. As disclosed in our initial public offering (“IPO”) prospectus, we have various products in our development pipeline. During the year 2010, we have achieved some major milestones in our research and development, which includes:

- Successfully completing the First-in-Man (“FIM”) clinical trial of Firehawk with encouraging results. We launched Target I, a larger scale study of a randomized controlled multicenter trial of Firehawk in August 2010, with the aim of assessing the safety and effectiveness of Firehawk and the performance of the stent delivery system.

Management Discussion and Analysis

- Successfully performing the first human case of the Columbus™ 3D EP mapping system and Voyager™ irrigated RF ablation catheter, representing the very first application of domestically developed magnetic tracking 3D mapping system and irrigated RF ablation catheter for the treatment of atrial fibrillation in China.

- Starting the patient enrollment of the clinical trial of Futago™, our thoracic and lumbar fusion device.

- Completing the patient enrollment for FIM clinical trial of our neurovascular reconstruction system for treatment of cerebral aneurysms.

- Our pacemaker, which is still in its development stage, is showing good progress with some promising results from the software we have developed.

As of December 31, 2010, we received a total of 62 patents in China and 2 patents in the European Union. In addition, we had 88 patent applications pending in China and 14 patent applications pending in other countries.

Certification

We have a diversified products offering with a robust product pipeline. During the year 2010, we kept on improving our products portfolio to meet the market demand. As part of our efforts to streamline our product portfolio, and concurrently to strengthen the certification management within the Group, we cancelled the CE certificates from TÜV SÜD for some vascular products with old specifications. Subsequently, we applied for and received the new CE certificates for the products with new specifications from DEKRA Certification B.V.

During 2010, we also managed to obtained CE certificates issued by TÜV SÜD for four orthopedic products, namely FireFox™, our spine posterior fixation system, Antelope™, our anterior cervical plate system, Firestone™, our cervical fusion device and Futago™, our thoracic and lumbar fusion device. These CE certificates, together with the CE certificates of our vascular products lay a foundation for our efforts to explore the potential of the international market.

With regard to the approvals from SFDA, we managed to obtain the approvals for EasyFinder diagnostic catheter and Radial artery hemostat in 2010. Also our Aegis Thoracic Artery Stent-Graft System, Aegis Bifurcate Artery Stent-Graft System, Aether Distal Protection Device System and Pioneer PTCA balloon dilatation catheter were approved by SFDA for re-registration, to meet the SFDA re-registration renewal requirement.

Branding

Our branding strategy is not limited to products alone but also cover the Group as a whole. We continuously try to improve and position ourselves as one of the leading providers of cutting edge medical devices, which customers can trust and rely on.

In line with our branding strategy, we expanded our IP portfolio in 2010 and only entered into markets where we think our IP is well protected. We have established a digitized IP management platform, comprising patent management software, a patent search engine, software for patent-related statistics and analysis, as well as a patent database to strengthen the IP management of our Group.

We made achievements in trademark registration in 2010, with our "MicroPort" trademark being successfully registered in USA as well as in Hong Kong. As at December 31, 2010, we have registered 40 trademarks in China, and were awarded "2010 Shanghai Equipment Manufacturing and High-Tech Innovation Brand", and recognized as one of the "Shanghai Best Known Trademark". We are also applying for the "Chinese Famous Brand" status, which would give us an additional advantage in various areas of conducting our business. In the long run, we believe that as we grow from the inside, our brand will begin to shine on the outside.

FINANCIAL REVIEW

Overview

For the year ended December 31, 2010, the Company is very pleased with its achievements. Besides achieving our revenue and profit goals, we also successfully raised HK$1,648.6 million from our IPO (net of listing expenses). We continue to manage our financials in a prudent way while balancing them with reasonable expansion to meet both market demand for our products and our shareholders' expectations of our Company.

Revenue

Revenue of the Group increased by 29.8% from RMB560.7 million for the year ended December 31, 2009 to RMB727.7 million for the year ended December 31, 2010. Drug-eluting stents remained the main contributor of our Group's revenue accounting for 86% of our total revenue, which is approximately the same as in 2009. We did not generate any revenue from our orthopedics device business during the years ended December 31, 2009 and 2010 as that business has been, and currently remains, in the research and development stage.

Revenue from Drug-eluting Stents

Revenue from sales of drug-eluting stents increased by 29.7% from RMB484.1 million for the year ended December 31, 2009 to RMB627.8 million for the year ended December 31, 2010. The increase was primarily due to an increase in the sales volume of Firebird 2. We believe that the increase in sales volume of Firebird 2 primarily resulted from (i) the overall growth of the market for drug-eluting stents in China, and (ii) the increasing recognition of the quality and performance of Firebird 2 in the medical community and among patients.

Management Discussion and Analysis

Revenue from TAA/AAA Stent Grafts

Revenue from sales of TAA/AAA stent grafts increased by 61.2% from RMB28.9 million for the year ended December 31, 2009 to RMB46.5 million for the year ended December 31, 2010. The increase was primarily due to the increases in sales volume of our TAA stent graft, Hercules T, and AAA stent graft, Hercules B. The increase in sales volume of Hercules T and Hercules B primarily resulted from (i) the overall growth of the market for TAA/AAA stent grafts, (ii) increase sales of TAA/AAA stent grafts from our international market, and (iii) the commercial launch of Hercules B in September 2009.

Revenue from Bare-metal Stents

Revenue from sales of bare-metal stents decreased by 26.1% from RMB20.3 million for the year ended December 31, 2009 to RMB15.0 million for the year ended December 31, 2010. The decrease was primarily due to a decrease in the selling price of our primary bare-metal stent, Mustang, in the international markets.

Revenue from Other Products

Revenue from sales of other medical devices and products increased by 39.9% from RMB27.5 million for the year ended December 31, 2009 to RMB38.4 million for the year ended December 31, 2010. The increase was primarily due to increases in the sales volume of our intracranial stent, Apollo, our operational stent graft, Cronus, and La Fenice, our insulin pump. The increase in sales volume of Apollo and Cronus primarily resulted from growth in the market demand for such products, while increased marketing efforts and good service provided through our call centre resulted in the market awareness of La Fenice. Our orthopedic devices did not generate any revenue in 2010 as this is a relatively new line of products for the Group.

Cost of Sales

Cost of sales increased by 25.8% from RMB78.0 million for the year ended December 31, 2009 to RMB98.2 million for the year ended December 31, 2010, primarily as a result of increased sales volume.

Gross Profit

As a result of the foregoing factors, gross profit increased by 30.4% from RMB482.7 million for the year ended December 31, 2009 to RMB629.5 million for the year ended December 31, 2010, and the gross profit margin remained relatively stable for the years ended December 31, 2009 and 2010.

Other Net Loss

We had other net loss of RMB30.5 million for the year ended December 31, 2010, as compared to other net loss of RMB1.9 million for the year ended December 31, 2009. This other net loss was primarily due to the less favourable exchange rate for offshore translation of the IPO proceeds into RMB. While we wanted to convert the IPO proceeds into our operating currency, RMB, it was not practical to obtain the necessary approval and execute the conversion in a short time frame. As of December 31, 2010, we have approximately 77.3% of our IPO proceeds placed in RMB denominated accounts.

Research and Development Costs

Research and development costs increased by 36.4% from RMB86.4 million for the year ended December 31, 2009 to RMB117.9 million for the year ended December 31, 2010. The increase was primarily due to (i) an increase in salaries, bonuses and related expenses for personnel engaged in research and development resulting from an increase in the number of our research and development personnel and an increase in salaries, and (ii) an increase in purchases of supplies and materials used in connection with our increased research and development efforts.

Sales and Marketing Costs

Sales and marketing costs increased by 31.4% from RMB98.2 million in the year ended December 31, 2009 to RMB129.0 million for the year ended December 31, 2010. The increase was primarily due to (i) an increase of headcount as well as salaries, bonuses and share based compensation expenses for personnel engaged in sales and marketing, and (ii) an increase in marketing expenses as a result of increased training provided to doctors, and increased attendance at conferences and seminars to promote our products.

Administrative Expenses

Administrative expenses increased by 37.1% from RMB50.9 million for the year ended December 31, 2009 to RMB69.7 million for the year ended December 31, 2010. The increase was primarily attributable to the increase in salaries, bonuses and share based compensation expenses for our employees.

Income Tax

The effective income tax rate reduced to 18.7% for the year ended December 31, 2010 from 25.4% for the previous financial year primarily due to a provision for dividend withholding tax in 2009, in respect of dividends distributed by our subsidiary in China.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company increased by 28.8% from RMB186.4 million for the year ended December 31, 2009 to RMB240.1 million for the year ended December 31, 2010.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As of December 31, 2010, we had RMB928.1 million, as compared to RMB90.2 million as of December 31, 2009 in cash and cash equivalents. The significant increase in cash and cash equivalents is attributable mainly to our net IPO proceeds of approximately HK1,648.6 million, of which approximately 77.3% has been placed in RMB denominated accounts as of December 31, 2010. The approach of the board of directors (the "Board") to managing liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Borrowings and Finance Income

Total borrowings of the Group as at December 31, 2010 was RMB54.1 million as compared to RMB4.6 million as at December 31, 2009 and denominated in RMB. Fixed rate borrowings, which represent 92.4% of total borrowings bear a fixed interest rate of approximately 4.779% per annum. The increase is mainly attributable to the draw down of a new short term loan of RMB50 million during the year ended December 31, 2010. For the year ended December 31, 2010, net finance income of the Group was approximately RMB8.6 million as compared to net finance cost of RMB17.2 million for the year ended December 31, 2009. The finance income arose mainly from the fair value gain of redeemable convertible preference shares of RMB17.5 million immediately prior to their conversion into ordinary shares. All redeemable convertible preference shares were converted into ordinary shares upon listing of the Company.

Gearing Ratio

As at December 31, 2010, the gearing ratio (calculated by dividing total borrowings by total equity) of the Group remained at a low level of 0.027 (December 31, 2009: 0.012).

Working Capital

Our working capital (calculated as the difference between current assets and current liabilities) as of December 31, 2010 was RMB1,703.4 million (December 31, 2009: RMB222.9 million).

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables and payables that are denominated in a foreign currency (mainly US$) and; (ii) IPO proceeds which were received by the Company were in HK$ and were mostly exchanged into RMB and US$. The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Group to currency risk. During the year, the Group recorded a net exchange loss of RMB30.5 million (December 31, 2009: exchange loss of RMB0.2 million). The Group does not employ any financial instruments for hedging purposes.

Management Discussion and Analysis

Capital Expenditure

During the year, the Group's total capital expenditure amounted to approximately RMB96.8 million, which was used in the construction of our new factory and the acquisition of machinery and fittings for the said factory.

Charge on Assets

As at December 31, 2010, the Group had pledged its building held for own use with a net book value of RMB27.2 million for the purpose of securing a loan with a carrying value of RMB4.1 million.

Contingent Liabilities

As at December 31, 2010, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

HUMAN RESOURCES

As at December 31, 2010, the Group employed approximately 1,204 employees. The Group offers competitive salary packages, as well as discretionary bonuses and contributions to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

PROSPECTS

Since the listing of the Company's shares on the Stock Exchange on September 24, 2010, the IPO proceeds, net of IPO expenses, of approximately HK$1,648.6 million from the global offering of 290,651,000 shares of the Company were raised. As the IPO proceeds were raised recently, the Company did not have sufficient time to repatriate all the IPO proceeds into the PRC. However, the Company is in the process of applying to the relevant State Administration of Foreign Exchange to utilize the proceeds in accordance to the purposes stated in its prospectus. Currently, the IPO proceeds are placed as deposits in banks and financial institutions.

In respect of the general strategic direction of the Group, being on the cutting edge of technology, we will continually introduce new products into the market. As we place great emphasis on our research and development, we have a series of products in the pipeline that are being developed or going through clinical trials. We expect some of these products will strengthen our position in the existing market, while others will open new market opportunities for us. In general, we believe our future prospects should be shaped by the following key principles that we follow:

1. **Further developing and improving our existing products**

   We have invested significant effort in arriving at the quality of our products today. While we pride ourselves at these products and their quality, we are fully aware that continuous improvement is the key to our future development and a path towards establishing our brand synonymous with quality products. As such, certain of our research and development efforts are geared towards improving the quality of our existing products, and also deriving the next generation of our existing products. In line with this value, we have continued our research and development efforts on our Firehawk by performing the randomized controlled multicenter trial of Firehawk.

2. **Diversifying our existing products offering to include complementary medical devices as well as medical devices for other disorders**

   Although our current strength is in vascular and coronary areas of medicine, we intend to diversify vertically to include devices complementary to our existing products, and horizontally across other areas of medical devices. We have already initiated these steps by developing our balloon dilation catheter and distal protective device system, as well as moving ahead with La Fenice, our diabetic insulin pump, our EP devices and our orthopedic devices. Our expertise in developing vascular products, and a keen understanding of the coronary and vascular system of the human body, provide us the edge to venture into other related medical devices. By diversification, we aim to offer a wider range of products in the future, and hope that in the near future, doctors in China will have the opportunity to implant our pacemaker that we are currently developing.

3. **Growing our network internationally to increase sales and awareness of our products**

   Currently, the key market of our drug-eluting stent is still the Chinese market. Our aim is to develop our international market significantly so that it will contribute a major part of our revenue in the future. To achieve that, we consider that the Group needs a stronger platform for the international team to work on, as well as independent teams that handles various clinical trails and certification required by various countries. By doing so, the international sales and marketing team could effectively market all our products into the international scene, which in turn will create a greater awareness of our products and branding. Eventually, this increased international exposure could allow us to compete against established global medical device manufacturers.

Board of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Zhaohua Chang (常兆華), born in 1963, is our founder and executive director of the Company ("Director") and chairman of our Company. Dr. Chang has served as a Director since July 14, 2006 and assumed the responsibility of the chief executive officer of our Company from April 2008 to July 2010. Dr. Chang is currently holding directorship in the following subsidiaries of the Group namely MicroPort Medical Limited ("MP Medical"), Leader City Limited ("Leader City") and MicroPort Medical (Shanghai) Co., Ltd (微創醫療器械（上海）有限公司) ("MP Shanghai"). Dr. Chang has over 20 years of experience in the medical device industry, and he is currently a professor and associate dean of the Medical Device College of the University of Shanghai for Science and Technology. Prior to founding MP Shanghai in 1998, Dr. Chang was the vice president of research and development of Endocare Inc., a NASDAQ listed medical device company based in California, U.S., from 1996 to 1997. From 1990 to 1995, he was the senior engineer and senior scientist, director of research and development and vice president of engineering at Cryomedical Sciences Inc., a medical device company in Maryland, U.S., which was listed on NASDAQ prior to its acquisition by a third party. Dr. Chang has published a number of articles in biomedical science magazines, and holds 14 patents in China and the United States. Dr. Zhaohua Chang received a bachelor's degree in refrigeration engineering in 1983 and a master's degree in cryogenics in 1985 from the University of Shanghai for Science and Technology. Dr. Chang received his Ph.D. degree in biological sciences from the State University of New York at Binghamton in 1992.

Ms. Yan Zhang (張燕), born in 1970, is an executive Director, president and compliance officer of our Company. Ms. Zhang has served as a Director since July 22, 2010. Ms. Zhang also served as our senior vice president of corporate affairs, general counsel, compliance officer and Board secretary prior to July 2010. Ms. Zhang is currently holding directorship in Shanghai MicroPort Lifesciences Co., Ltd. (上海微創生命科技有限公司), a subsidiary of the Group. Ms. Zhang has over 16 years of legal experience practicing PRC law in China. Prior to joining us in 2006, Ms. Zhang was a senior lawyer of King & Wood, a leading law firm in China, from 2000 to 2006. From 1995 to 2000, Ms. Zhang was a lawyer of Development Law Firm in Zhejiang, China. Ms. Zhang received her master's degree in law and her bachelor's degree in law from China East University of Politics and Law in China in 2002 and 1991, respectively.

Mr. Hongbin Sun (孫洪斌), born in 1975, is an executive Director and chief financial officer ("CFO") of our Company. Mr. Sun has served as a Director and our chief financial officer since July 22, 2010. He was also a supervisor of MP Shanghai until July 2010. Mr. Sun is currently holding directorship in Shanghai MicroPort Orthopedics Co., Ltd. (上海微創骨科醫療科技有限公司), a subsidiary of the Group. Mr. Sun has over 10 years of finance experience. Mr. Sun was the director and general manager of Otsuka China from 2006 to July 2010. From 2004 to 2006, he served as a financial director of Otsuka China. From 1998 to 2003, Mr. Sun was an assistant manager of the Shanghai office of KPMG. Mr. Sun is a member of the Chinese Institute of Certified Public Accountants and is also a Chartered Financial Analyst. Mr. Sun received his bachelor's degree in economics from Shanghai Jiao Tong University in China in 1998.

Board of Directors and Senior Management

Mr. Qiyi Luo (羅七一), born in 1962, is an executive Director and chief technology officer ("CTO") of our Company. Mr. Luo has served as a Director since July 22, 2010. Mr. Luo is currently holding directorship in Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司), a subsidiary of the Group. Mr. Luo has over 19 years of experience in the medical device industry. Prior to joining us in 2003, he worked as principal research and development engineer and senior manufacturing/development engineer at Medtronic AVE in the United States from 1995 to 2002. From 1991 to 1995, he worked as supervisor and engineer of the angioplasty research and development team at Vas-Cath Inc., a subsidiary of C.R. Bard, Inc., in Canada. Mr. Luo, jointly with others, holds 30 patents and has 52 patent applications pending in China, the United States, Japan and the European Union. Mr. Luo received his bachelor's degree in applied science from Yunnan University of Technology in China in 1983 and his master's degree in applied science from Queen's University in Canada in 1990.

Non-executive Directors

Mr. Norihiro Ashida (蘆田典裕), born in 1954, is a non-executive Director of our Company. Mr. Ashida has served as a Director since November 1, 2006 and has also served as a director of MP Shanghai since March 2004. Mr. Ashida is currently holding directorship in the following subsidiaries of the Group namely MP Medical, Leader City and MP Shanghai. Mr. Ashida is an executive operating officer of Otsuka Holdings Co., Ltd. ("Otsuka Holdings") and the director of its corporate development department. Mr. Ashida is also a director of Otsuka Medical Devices Co., Ltd. He joined Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") in April 2003 from Mizuho Corporate Bank Ltd., where he was a general manager from 2002 to 2003. From 1999 to 2002, Mr. Ashida was a general manager of the Industrial Bank of Japan ("IBJ"), where he headed the credit department for western Japan. From 1995 to 1999, Mr. Ashida served as vice president responsible for business development at 3iBJ Ltd., a venture capital firm formed by 3i Group plc and IBJ. From 1989 to 1995, Mr. Ashida was a senior vice president of IBJ (Canada). He joined IBJ in 1977 in its Tokyo branch. Mr. Ashida received his bachelor's degree in economics from the University of Tokyo in 1977.

Mr. Hiroshi Shirafuji (白藤泰司), born in 1944, is a non-executive Director of our Company. Mr. Shirafuji has served as a Director since November 1, 2006 and has also served as a director of MP Shanghai since March 2004. Mr. Shirafuji is currently holding directorship in the following subsidiaries of the Group namely MP Medical, Leader City and MP Shanghai. Mr. Shirafuji is the chairman of JIMRO Co., Ltd. ("JIMRO"), a subsidiary of Otsuka Pharmaceutical. Prior to joining JIMRO in June 2003, he was an executive director responsible for pharmaceuticals marketing at Otsuka Pharmaceutical from 1997 to 1998. Mr. Shirafuji joined Otsuka Pharmaceutical in 1967. Mr. Shirafuji received his bachelor's degree in economics from Doshisha University in Kyoto in 1967. Mr. Shirafuji was also appointed as president and CEO, representative director of Otsuka Medical Devices Co., Ltd. in February 2011.

Mr. Xiaolong Liu (劉小龍), born in 1957, is a non-executive Director of our Company. Mr. Liu has served as a Director since July 1, 2009. Mr. Liu is currently holding directorship in the following subsidiaries of the Group namely MP Medical, Leader City and MP Shanghai. Mr. Liu has also served as deputy manager of the leading group office (primarily responsible for the overall development planning and policy making of Shanghai Zhangjiang High and New Technology Development Zone) of Shanghai Zhangjiang High and New Technology Development Zone, deputy manager of the management committee of Shanghai Zhangjiang Hi-Tech Park, and deputy president of Shanghai Zhangjiang (Group) Co., Ltd. since 2005. From 1994 to 2005, Mr. Liu served as manager of the investment department, manager of the project department, assistant to general manager, deputy general manager and general manager of Shanghai Waigaoqiao Free Trade Zone Xin Development Co., Ltd. From 1990 to 1994, Mr. Liu was manager of the operating department of Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd. Mr. Liu received his bachelor's degree in electrical automation from Shanghai Jiao Tong University in 1983 and his master's degree in business administration from European University of Ireland in 2001.

Board of Directors and Senior Management

Independent Non-executive Directors

Mr. Zezhao Hua (華澤釗), born in 1938, was appointed as our independent non-executive Director on March 9, 2010. Mr. Hua is a noted scholar in the biotechnology and medical device fields, and has been a professor, lecturer and visiting scholar at several universities in China and the United States for more than 30 years. Mr. Hua has served as first chair professor of the Medical Device College of the University of Shanghai for Science and Technology since 1996. From 1990 to 1996, Mr. Hua was the dean of the Power Engineering College of the East China University of Technology. Mr. Hua was a guest professor of the Department of Biological Sciences of the State University of New York at Binghamton from 1990 to 1991. Mr. Hua has published numerous articles and received various awards in the biotechnology and medical device fields. Mr. Hua also holds 10 patents in China. Mr. Hua was an university student (6-year-system) in thermal engineering and graduate student (3-year-system) in engineering thermophysics in Tsinghua University, and graduated in 1962 and 1965, respectively. Mr. Hua was a visiting scholar at the Massachusetts Institute of Technology from 1980 to 1983.

Mr. Jonathan H. Chou (周嘉鴻), born in 1964, was appointed as our independent non-executive Director on September 3, 2010. Mr. Chou has over 15 years of finance experience in the United States and Asia. Mr. Chou has served as senior vice president and chief financial officer of Kulicke & Soffa Industries, Inc., a NASDAQ-listed company (NASDAQ: KLIC) since December 2010. Mr. Chou served as chief financial officer of American Dairy Inc., a company listed on the New York Stock Exchange (NYSE: ADY), from April 2008 to December 2010. From February 2006 to June 2007, Mr. Chou served as the Asia Pacific corporate chief financial officer and vice president of mergers & acquisitions for Honeywell International. From September 2003 to June 2006, Mr. Chou served as the Asia regional chief financial officer of Tyco Fire & Security, a division of Tyco International. From May 2000 to September 2003, Mr. Chou served as the Asia Pacific chief financial officer of Lucent Technologies, where he oversaw regional Sarbanes-Oxley compliance and restructuring efforts during the downturn of the telecommunications sector. Mr. Chou received a bachelor of arts degree from the State University of New York at Buffalo in 1988 and a master's degree in business administration from Fuqua School of Business at Duke University in 1999.

Dr. Guoen Liu (劉國恩), born in 1957, was appointed as our independent non-executive Director on September 3, 2010. Dr. Liu is a noted scholar in the fields of health and development economics, health reform and pharmaceutical economics. Dr. Liu has served as professor of economics at Guanghua School of Management of Peking University, executive director of the Guanghua School of Management Health Economics and Management Institute of Peking University, and director of the China Center for Pharmaceutical Economics and Outcomes Research of Peking University since 2006. From 2000 to 2006, Dr. Liu was tenured associate professor of University of North Carolina at Chapel Hill. From 1994 to 2000, Dr. Liu was assistant professor of University of South Carolina. Dr. Liu also serves as editor or a member of the editorial board in various periodic in the field of pharmaceutical economics. Dr. Liu received his bachelor's degree in mathematics from Southwestern University for Nationalities in 1981, his master's degree in statistics from Southwestern University of Finance and Economics in 1985, his Ph.D. in economics from the City University of New York in 1991, and post-doctoral training in health economics from Harvard University in 1994.

Board of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Yan Zhang (張燕), president and compliance officer of our Company. Please refer to the section headed "Directors — Executive Directors" above for the details of her biography.

Mr. Hongbin Sun (孫洪斌), CFO of our Company. Please refer to the section headed "Directors — Executive Directors" above for the details of his biography.

Mr. Qiyi Luo (羅七一), CTO of our Company. Please refer to the section headed "Directors — Executive Directors" above for the details of his biography.

Mr. Philip Li Wang (汪立), born in 1968, is our chief operating officer and was our chief marketing officer until July 2010. Mr. Wang has over 13 years of experience in the medical device industry. Mr. Wang joined us in 2002. Prior to joining us, Mr. Wang was a business development manager at Medtronic, Inc. in Hong Kong from 1998 to 2000. From 1996 to 1998, Mr. Wang was product manager and China country manager for Guidant Corporation. Mr. Wang received his master's degree in business administration from the University of California at Davis in the United States in 1996.

Mr. Kongrong Karl Pan (潘孔榮), born in 1959, is our vice president of manufacturing and operation. Mr. Pan has over 18 years of experience in manufacturing and supply chain management in the medical device industry. Prior to joining us in 2009, Mr. Pan served as senior principal engineer and engineering manager at St. Jude Medical Inc. in the United States from 1997 to 2009. From 1992 to 1996, Mr. Pan was senior research and development engineer at Jostens Inc. in the United States. Mr. Pan holds one patent in the United States. Mr. Pan received his bachelor of science degree in aerospace engineering from Beijing University of Aeronautics and Astronautics in China in 1982 and his master of science degrees in mechanical engineering from Shanghai Polytechnic University in China and University of Minnesota in the United States in 1986 and 1992, respectively. Mr. Pan also obtained his master's degree in business administration from the University of Minnesota in the United States in 2002.

Mr. Bo Peng (彭博), born in 1968, is our chief marketing officer. Prior to August 2010, Mr. Peng served as senior vice president of domestic sales and marketing of the Company. Mr. Peng has over 15 years of experience in marketing and sales. Prior to joining us in 2001, Mr. Peng served as vice president, general manager of the sales subsidiary, and director of Xianxing Electronics Group. Mr. Peng received his bachelor's degree in computer science from Changchun University of Science and Technology in 1990 and a master's degree in business administration from Shanghai University of Finance & Economics in 2003.

Report of the Directors

The Board of the Company is pleased to present this report together with the audited financial statements of the Group for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 15 to the consolidated financial statements. There were no significant changes in the nature of Group's activities during the year.

FINANCIAL STATEMENTS

The profit of the Group for the year ended December 31, 2010 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 47 to 140.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2010, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 12.8% and 40.8% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 21.1% and 51.2% respectively of the Group's total revenue for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25(c) to the consolidated financial statements.

LISTING OF SHARES

The Company's shares were listed on the Stock Exchange on September 24, 2010. Details are set out in note 25(c)(i)(4) to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity".

As at December 31, 2010, the Company had reserves available for distribution of RMB1,886 million (2009: RMB397 million).

Details of dividends declared are set out in note 25(b) to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report were:

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

Non-Executive Directors
Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Xiaolong Liu

Independent Non-Executive Directors
Mr. Zezhao Hua
Mr. Jonathan H. Chou
Dr. Guoen Liu

Dr. Zhaohua Chang, Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji, Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu will retire from office as Directors at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election pursuant to the Articles of Association of the Company.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 21 to 24 of this annual report.

DIRECTORS' SERVICE CONTRACT

None of the executive Directors and non-executive Directors has entered into a service contract regarding their office of director with the Company.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year commencing from September 24, 2010 and such appointment will continue thereafter unless and until terminated by either party in accordance with the letter of appointment.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service contract which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

Report of the Directors

The Company has adopted a share option scheme as an incentive for directors and eligible employees. Details of the scheme are set out in the section headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with highest emoluments are set out in notes 8 and 9 to the consolidated financial statements.

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

As at December 31, 2010, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

1. **Interests and short positions in the shares (the "Shares") of the Company**

Name of Director/ Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of the issued share capital of the Company
Chang Zhaohua	217,110,000	1	Deemed interest	Long position	15.06%
Luo Qiyi	10,919,550		Beneficial owner	Long position	0.76%
Zhang Yan	3,200,000	2	Beneficial owner	Long position	0.22%

2. Interests and short positions in the underlying Shares

Name of Director/ Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of the issued share capital of the Company
Chang Zhaohua	10,000,000	3	Beneficial owner	Long position	0.69%
Zhang Yan	4,500,000	3	Beneficial owner	Long position	0.31%
Luo Qiyi	2,780,450	3	Beneficial owner	Long position	0.19%
Sun Hongbin	4,000,000	3	Beneficial owner	Long position	0.28%

Notes:

(1) Chang Zhaohua, our founder, Director and chairman, owns 49% equity interest in Shanghai We'Tron Capital Corp. ("Shanghai We'Tron") which in turn owns 94.19% equity interest in We'Tron Capital China Limited ("We'Tron Capital"). Chang Zhaohua is therefore deemed to be interested in the number of Shares held by We'Tron Capital.

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

(3) These Directors are interested in the underlying Shares of the Company by virtue of the options granted to them under the share option scheme of the Company. For further details, please refer to the below section headed "Share Option Scheme".

Save as disclosed above, as at December 31, 2010, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2010, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interests and short positions in the Shares

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
Otsuka Holdings	468,994,120	1	Interest of controlled corporation	Long position	32.52
Otsuka Pharmaceutical	468,994,120	1	Beneficial owner	Long position	32.52
Shanghai Zhangjiang (Group) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	19.82
Shanghai Zhangjiang Science and Technology Investment Co.	285,748,050	2	Interest of controlled corporation	Long position	19.82
Shanghai Zhangjiang Hi-Tech Park Development Co. Ltd.	285,748,050	2	Interest of controlled corporation	Long position	19.82
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited	285,748,050	2	Interest of controlled corporation	Long position	19.82
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	19.82
Shanghai ZJ Holdings Limited	285,748,050	2	Interest of controlled corporation	Long position	19.82
Shanghai ZJ Hi-Tech Investment Corporation	285,748,050	2	Interest of controlled corporation/ Beneficial owner	Long position	19.82
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	2	Beneficial owner	Long position	14.97
Shanghai We'Tron	217,110,000	3	Interest of controlled corporation	Long position	15.06
We'Tron Capital	217,110,000	3	Beneficial owner	Long position	15.06

Notes:

(1) Otsuka Holdings holds the entire issued share capital of Otsuka Pharmaceutical and therefore, is deemed to be interested in the number of Shares held by Otsuka Pharmaceutical. The interest in 468,994,120 Shares by these companies relates to the same block of Shares.

(2) Shanghai Zhangjiang (Group) Co., Ltd. is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Shanghai Pudong New Area People's Government. Shanghai Zhangjiang (Group) Co., Ltd. holds 100% interest in Shanghai Zhangjiang Science and Technology Investment Co., which in turn holds 100% interest in Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited, which in turn holds 50% interest in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai Zhangjiang (Group) Co., Ltd. also holds 53.58% interest in Shanghai Zhangjiang Hi-Tech Park Development Co. Ltd., which in turn holds 100% interest in Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd., which in turn holds 100% interest in Shanghai ZJ Holdings Limited, which in turn holds 50% in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai ZJ Hi-Tech Investment Corporation holds 100% interest in each of Shanghai Zhangjiang Health Solution Holdings Limited, Shanghai Zhangjiang Health Solution Investment Limited and Shanghai Zhangjiang Health Solution Industry Limited. The interest in 285,748,050 Shares by these companies relates to the same block of Shares by virtue of the long position in the Shares held by the following companies:

Name of Controlled Corporation	No. of Shares	Percentage of total number of Shares in issue (%)
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.49
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	14.97
Shanghai Zhangjiang Health Solution Investment Limited	53,398,570	3.70
Shanghai Zhangjiang Health Solution Industry Limited	9,423,280	0.65
Total	285,748,050	19.82

(3) Chang Zhaohua owns 49% equity interest in Shanghai We'Tron, which in turn owns 94.19% equity interest in We'Tron Capital. The interest in 217,110,000 Shares by these companies relates to the same block of Shares. Chang Zhaohua is also deemed interested in 10,000,000 underlying Shares of the Company by virtue of the options granted to him under the share option scheme of the Company.

Save as disclosed above, and as at December 31, 2010, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Save as disclosed in note 28 to the consolidated financial statements, no contract of significance had been entered into between the Company or any of its subsidiaries and the Controlling Shareholders (as defined in the Listing Rules) of the Company or any or its subsidiaries.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Interests and short positions of the Directors in Shares, underlying Shares and debentures of the Company and its associated corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

The connected transactions under Chapter 14A of Listing Rules are the same as the related party transactions set out in note 28 to the consolidated financial statements. The independent non-executive Directors of the Company have reviewed the continuing connected transactions of the Company within the reporting period and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Company had applied for and was granted a waiver from strict compliance with the announcement and independence shareholders' approval requirements under Chapter 14A of the Listing Rules during the IPO of its shares for these continuing connected transactions of the Company. The continuing connected transactions within the reporting period did not exceed the annual cap as set out in the waiver letter and in the prospectus of the Company.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Group in note 28 to the consolidated financial statements in accordance with Rule 14A.38 of the Listing Rules.

Save as disclosed therein, there were no other connected transactions or continuing connected transactions which are required to be disclosed in this annual report in accordance with the requirements of Chapter 14A of the Listing Rules.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

During the year ended December 31, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year, there was no material acquisition and disposal of subsidiaries and associated companies by the Company.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2010 are set out in note 21 to the consolidated financial statements.

SHARE OPTION SCHEME

In order to attract and retain eligible persons, and to provide an additional incentive for them to promote the success of the Group, the Company had adopted a share option scheme in 2004 (the "2004 Option Plan") and 2006 (the "2006 Incentive Plan"). The 2004 Option Plan was modified when the Company agreed to assume the obligation of all outstanding and unvested share options of MicroPort Medical (Cayman) Corporation (the "2004 Modified Plan"), while the 2006 Incentive Plan was modified prior to IPO by increasing the maximum aggregate number of shares which may be issued to 6,509,157.

On September 3, 2010, the Company approved a 10-for-1 share split of the Company's ordinary shares and the redeemable convertible preference shares conditional on the completion of IPO. The 10-for-1 split also applied to the Company's share option plans. Accordingly, each vested share option can be exercised for 10 ordinary shares. The number of share options and exercise price information presented below in respect of the Company's share option plans have not been adjusted to reflect the 10-for-1 share split.

Details of the terms and conditions of the options in relation to the 2004 Option Plan, the 2004 Modified Plan and the 2006 Incentive Plan are contained in note 24 to the consolidated financial statements.

During the year, 3,487,967 share options were granted and the status of the share options granted up to December 31, 2010 is as follows:

Category of participants	As at January 1 2010	Granted during the year	Exercised during the year	Withdrawn during the year	As at December 31 2010	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
Directors										
Zhaohua Chang	–	1,000,000	–	–	1,000,000	July 9th, 2010	Jul. 9th, 2010– Jul. 8th, 2014	Jul. 9th, 2011– Jul. 8th, 2020	USD3.062	NA
In aggregate	–	1,000,000	–	–	1,000,000					
Yan Zhang	63,700	–	63,700	–	–	March 2nd, 2007	Mar. 2nd, 2007– Apr. 27th, 2010	Apr. 28th, 2007– Apr. 27th, 2016	USD1.267	NA
	170,000	–	70,000	–	100,000	July 25th, 2008	Jul. 25th, 2008– Apr. 27th, 2010	Jul. 25th, 2008– Jul. 24th, 2018	USD3.062	NA
	–	250,000	–	–	250,000	July 9th, 2010	Jul. 9th, 2010– Jul. 8th, 2014	Jul. 9th, 2011– Jul. 8th, 2020	USD3.062	NA
	–	100,000	–	–	100,000	August 9th, 2010	Aug. 9th, 2010– Aug. 8th, 2014	Apr. 28th, 2011– Aug. 8th, 2020	USD3.062	NA
In aggregate	233,700	350,000	133,700	–	450,000					
Qiyi Luo	28,045	–	–	–	28,045	March 2nd, 2007	Mar. 2nd, 2007– Feb. 14th, 2011	Feb. 15th, 2008– Jan. 24th, 2017	USD2.75	NA
	–	250,000	–	–	250,000	July 9th, 2010	Jul. 9th, 2010– Jul. 8th, 2014	Jul. 9th, 2011– Jul. 8th, 2020	USD3.062	NA
In aggregate	28,045	250,000	–	–	278,045					
Hongbin Sun	–	400,000	–	–	400,000	August 9th, 2010	Aug, 9th, 2010– Aug. 8th, 2014	Sep.1st, 2011– Aug. 8th, 2020	USD3.062	NA
In aggregate	–	400,000	–	–	400,000					
In aggregate	**261,745**	**2,000,000**	**133,700**	**–**	**2,128,045**					

Category of participants	As at January 1 2010	Granted during the year	Exercised during the year	Withdrawn during the year	As at December 31 2010	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
Consultants										
	491,208	–	–	–	491,208	February 20th, 2004	Sep. 24th, 2010–Sep. 23rd, 2011	Sep. 24th, 2011–Feb. 19th, 2014	USD0.25	NA
	177,408	–	–	–	177,408	February 20th, 2004	Sep. 24th, 2010–Sep. 23rd, 2011	Sep. 24th, 2011–Feb. 19th, 2014	HKD0.5498	NA
	81,868	–	–	–	81,868	February 20th, 2004	Sep. 24th, 2010–Sep. 23rd, 2011	Sep. 24th, 2011–Feb. 19th, 2014	HKD0.5827	NA
	177,408	–	–	–	177,408	February 20th, 2004	Sep. 24th, 2010–Sep. 23rd, 2011	Sep. 24th, 2011–Feb. 19th, 2014	HKD0.7046	NA
	100,000	–	–	–	100,000	May 17th, 2007	May. 17th, 2007–May. 16th, 2011	May 17th, 2008–May 16th, 2017	USD3.062	NA
	50,000	–	–	–	50,000	June 14th, 2007	Sep. 24th, 2010–Sep. 23rd, 2014	Sep 24th, 2010–Sep 23rd, 2020	USD3.062	NA
In aggregate	1,077,892	–	–	–	1,077,892					
Employees										
	81,868	–	–	–	81,868	February 20th, 2004	Sep. 24th, 2010–Sep. 23rd, 2011	Sep. 24th, 2011–Feb. 19th, 2014	HKD0.5637	NA
	327,920	–	25,392	–	302,528	March 2nd, 2007	Mar. 2nd, 2007–Feb. 14th, 2011	Feb. 15th, 2008–Jan. 24th, 2017	USD2.75	NA
	31,000	–	17,000	14,000	–	April 2nd, 2007	Apr. 2nd, 2007–Apr. 1st, 2012	Apr. 2nd, 2008–Apr. 1st, 2017	USD2.75	NA
	588,953	–	227,287	12,804	348,862	April 23rd, 2007	Apr. 23rd. 2007–Mar. 1st, 2013	Apr. 23rd, 2007–April 22nd, 2017	USD2.75	NA
	50,000	–	–	–	50,000	June 14th, 2007	Sep. 23rd, 2007–Sep. 22nd, 2012	Sep. 23rd, 2008–Sep. 22nd, 2017	USD3.062	NA
	100,000	–	–	–	100,000	July 25th, 2008	Jul. 25th, 2008–Jul. 24th, 2012	Jul. 25th, 2009–Jul. 24th, 2018	USD3.062	NA
	250,000	–	–	–	250,000	December 1st, 2008	Sep. 10th, 2008–Sep. 9th, 2012	Sep. 10th, 2009–Sep. 9th, 2018	USD3.062	NA
	20,000	–	–	–	20,000	December 1st, 2008	Jun. 24th, 2008–Jun. 23rd, 2012	Jun. 24th, 2009–Jun. 23th, 2018	USD3.062	NA
	150,000	–	–	–	150,000	December 1st, 2008	Jan. 1st, 2009–Dec. 31st, 2012	Jan. 1st, 2010–Dec. 31st, 2018	USD3.062	NA
	25,000	–	–	–	25,000	February 6th, 2009	Feb. 6th, 2009–Feb. 5th, 2014	Feb. 6th, 2010–Feb. 5th, 2019	USD4.25	NA
	400,000	–	–	–	400,000	October 21st, 2009	Oct. 9th, 2009–Oct. 8th, 2014	Oct. 9th, 2010–Oct. 20th, 2019	USD3.062	NA
	150,000	–	–	–	150,000	October 21st, 2009	Oct. 15th, 2009–Oct. 14th, 2014	Oct. 15th, 2010–Oct. 20th, 2019	USD3.062	NA
	50,000	–	–	–	50,000	October 21st, 2009	Jan. 1st, 2010–Dec. 31st, 2014	Jan.1st, 2011–Oct. 20th, 2019	USD3.062	NA
	–	70,000	–	–	70,000	July 8th, 2010	Aug. 1st, 2010–Jul. 31st, 2014	Aug. 1st, 2011–Jul. 7th, 2020	USD3.062	NA
	–	53,094	–	–	53,094	July 8th, 2010	Jul. 8th, 2010–Jul. 7th, 2014	July 8th, 2011–Jul. 7th, 2020	USD3.062	NA
	–	1,364,873	–	–	1,364,873	July 9th, 2010	Jul. 9th, 2010–Jul. 8th, 2014	Jul. 9th, 2011–Jul. 8th, 2020	USD3.062	NA
In aggregate	**2,224,741**	**1,487,967**	**269,679**	**26,804**	**3,416,225**					
TOTAL	**3,564,378**	**3,487,967**	**403,379**	**26,804**	**6,622,162**					

Report of the Directors

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times since the Company was listed and up to December 31, 2010.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINAL DIVIDEND AND CLOSURE OF THE REGISTER OF MEMBERS

The Directors recommend the payment of a final dividend for 2010 of HK$0.05 (equivalent to RMB0.04) per share to shareholders of the Company on the register of members of the Company on May 25, 2011. Based on the number of issue shares as at December 31, 2010. This represents a total distribution of approximately HK$72 million (equivalent to RMB61 million). Subject to the approval of the 2010 final dividend by the shareholders at the annual general meeting of the Company to be held on May 25, 2011, it is expected that the dividend will be paid on or around June 27, 2011.

The register of members of the Company will be closed from May 23 to May 25, 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at 2011 annual general meeting and for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on May 20, 2011.

AUDITORS

KPMG has acted as auditors of the Company for the year ended December 31, 2010.

KPMG shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Dr. Zhaohua Chang
Chairman

Shanghai, March 22, 2011

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended December 31, 2010.

CORPORATE GOVERNANCE PRACTICES

The Group strives to maintain high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

In the opinion of the Directors, the Company has complied with the code provisions as set out in the CG Code since the listing of the shares of the Company on the Main Board of the Stock Exchange on September 24, 2010 (the "Listing Date") and up to the date of this annual report, save for those otherwise as stated and explained in the relevant paragraphs of this report.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD/BOARD OF DIRECTORS

RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance. The Board has delegated the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all time.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

BOARD COMPOSITION

The Board currently comprises ten members, consisting of four executive Directors, three non-executive Directors and three independent non-executive Directors.

Corporate Governance Report

The list of all Directors, which also specifies the posts, e.g. of Chairman, and chairman and member of committees, held by each Director is set out under "Corporate Information" on page 2. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Board of the Company comprises the following Directors:

Executive Directors:
Dr. Zhaohua Chang *(Chairman)*
Ms. Yan Zhang *(President)*
Mr. Hongbin Sun *(CFO)*
Mr. Qiyi Luo *(CTO)*

Non-Executive Directors:
Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Xiaolong Liu

Independent Non-Executive Directors:
Mr. Zezhao Hua
Mr. Jonathan H. Chou
Dr. Guoen Liu

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

None of the members of the Board is related to one another.

Since the Listing Date and up to the date of this annual report, the Board at all time met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE OFFICER)

The Company fully supports the division of responsibility between the Chairman of the Board and the President to ensure a balance of power and authority. The positions of Chairman and President are held by Dr. Zhaohua Chang and Ms. Yan Zhang respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. The President focuses on implementing objectives, policies and strategies approved and delegated by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the independent non-executive Directors of the Company is engaged on an appointment letter for a term of one year. The appointment may be terminated by 1-month written notice.

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment/re-election and succession planning of directors.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr. Xiaolong Liu (chairman of the committee), Mr. Zezhao Hua and Dr. Guoen Liu, the majority of them are independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes
- To identify suitable candidates for appointment as directors
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors
- To assess the independence of independent non-executive directors

During the period from the Listing Date to December 31, 2010, no meeting of the Nomination Committee was held because the committee members have been only appointed since September 3, 2010 and it was not necessary to review the size and composition of the Board or identify any new Board members for the period from the Listing Date to December 31, 2010. From 2011 onward, the Nomination Committee will conduct meeting at least once a year.

In accordance with the Company's Articles of Association, Dr. Zhaohua Chang, Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji, Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu shall retire and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated April 19, 2011 contains detailed information of the Directors standing for re-election.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Code provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting.

Certain regular Board meetings held during the year ended December 31, 2010 were convened with less than 14 days' notice but reasonable notice were still given. The Company adopted a flexible approach in convening Board meetings and ensuring that sufficient time and adequate information were given to Directors for making informed decisions.

Agenda and board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The board secretary and the company secretary are responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Directors' Attendance Records

During the year ended December 31, 2010, eight Board meetings were held for discussing the overall strategy, corporate governance policies and financial performance.

The attendance records of each Director at the Board meetings subsequent to his/her appointment as a Director, during the year ended December 31, 2010 are set out below:

Name of Director	Attendance/Number of meetings held subsequent to the appointment of the Director concerned Board
Executive Directors	
Dr. Zhaohua Chang	8/8
Ms. Yan Zhang	3/3
Mr. Hongbin Sun	3/3
Mr. Qiyi Luo	3/3
Non-Executive Directors	
Mr. Norihiro Ashida	8/8
Mr. Hiroshi Shirafuji	8/8
Mr. Xiaolong Liu	8/8
Independent Non-Executive Directors	
Mr. Zezhao Hua	2/2
Mr. Jonathan H. Chou	2/2
Dr. Guoen Liu	2/2

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code since the Listing Date and up to the date of this annual report.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advices and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the President and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request. Aside from the aforesaid three Board committees, the Company has also established an Executive Committee to oversee the day-to-day operations of the Group.

EXECUTIVE COMMITTEE

The Executive Committee comprises six members, namely, Ms. Yan Zhang (chairman of the committee), Mr. Hongbin Sun, Mr. Qiyi Luo, Mr. Philip Li Wang, Mr. Kongrong Karl Pan and Mr. Bo Peng, the majority are heads or vice presidents of operational departments.

The purpose of the Executive Committee is to oversee the management of the Company relating to routine, administrative, operational and managerial matters that occur between regularly schedules meetings of the Board and shall support to and be responsible to the Board. Subject to the provisions set out in the charter of the Executive Committee, the committee basically will have and may exercise all the powers and authority granted by the Board in the management of business and affairs.

During the year under review, the Executive Committee held meetings periodically and frequently to carry out their functions.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Dr. Zhaohua Chang (chairman of the committee), Mr. Jonathan H. Chou, and Dr. Guoen Liu, the majority of which are independent non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on the remuneration policy and structure of the directors and the senior management and determining the remuneration packages of all executive directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the period from the Listing Date to December 31, 2010, no meeting of the Remuneration Committee was held because the committee members have been only appointed since September 3, 2010. From 2011 onward, the Remuneration Committee will conduct meeting at least once a year.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2010.

The Board, with support of the finance and legal teams, is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

AUDIT COMMITTEE

The Audit Committee comprises three members namely, Mr. Jonathan H. Chou (chairman of the committee), Mr. Norihiro Ashida and Mr. Zezhao Hua, two of which are independent non-executive Directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

Since the Listing Date and up to the date of this annual report, the Audit Committee reviewed the financial results of the Company and its subsidiaries for six months ended June 30, 2010 and the annual results and annual report for the year ended December 31, 2010, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held one meeting during the period from the Listing Date to December 31, 2010, and all the members attended the meeting.

INTERNAL CONTROLS

1. The Board is responsible for the Company's system of internal controls and is committed to managing business risks and maintaining a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets.

2. The Company's internal control system encompasses its policies, processes, tasks, and other aspects of the Company that taken together:

    a) facilitate its effective and efficient operation by allowing it to respond appropriately to significant business, operational, financial, compliance and other risks with a view of achieving business objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;

    b) help ensure maintenance of proper accounting records for the provision of reliable financial information for internal or external reporting; and

    c) help ensure compliance with relevant legislation and regulations, and also with internal policies with respect to the conduct of business.

3. The internal control system is designed to provide reasonable, but not absolute, assurance of no material mis-statement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Company's objectives.

4. The Board, through the Audit Committee, has conducted reviews of the effectiveness of the Company's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions. The Board, through the review of the Audit Committee, is satisfied that the Company has fully complied with the code provisions on internal controls during the year under review as set forth in the CG Code.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 45 in this annual report.

For the year ended December 31, 2010, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (US$'000)
KPMG	165

The service performed by KPMG Hong Kong related to the non-statutory audit of the Group's consolidated financial statements for the six months ended June 30, 2010.

Non-audit Services

Reporting accountants	Fees (US$'000)
KPMG	1,090

The services performed by KPMG were related to the Listing.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at www.microport.com.cn, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write to the Company at its principal place of business in Hong Kong or China or via the Company's website for any enquiries.

The general meetings of the Company provide a forum and an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available normally at the annual general meeting and other relevant shareholder meetings to answer questions at shareholder meetings.

The 2011 Annual General Meeting ("AGM") will be held on May 25, 2011. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting pursuant to the Listing Rules.

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of MicroPort Scientific Corporation

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of MicroPort Scientific Corporation (the "Company") and its subsidiaries (together the "Group") set out on pages 47 to 140, which comprise the consolidated and Company balance sheets as at December 31, 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

March 22, 2011

Consolidated Income Statement

For the year ended December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	3, 4	**727,718**	560,726
Cost of sales		**(98,205)**	(78,037)
Gross profit		**629,513**	482,689
Other revenue	5	**22,854**	22,519
Other net loss	5	**(30,523)**	(1,867)
Research and development costs		**(117,855)**	(86,384)
Sales and marketing costs		**(129,048)**	(98,177)
Administrative expenses		**(69,718)**	(50,850)
Other operating costs		**(18,643)**	(1,022)
Profit from operations		**286,580**	266,908
Finance income/(expense)	6(a)	**8,576**	(17,153)
Profit before taxation	6	**295,156**	249,755
Income tax	7(a)	**(55,055)**	(63,382)
Profit for the year		**240,101**	186,373
Earnings per share	11		
Basic (RMB)		**0.20**	0.16
Diluted (RMB)		**0.20**	0.16

The notes on pages 56 to 140 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010

	2010	2009
	RMB'000	RMB'000
Profit for the year	**240,101**	186,373
Other comprehensive income for the year		
Exchange differences of translation of financial statements of entities outside the PRC, net of nil tax	**(16,257)**	577
Total comprehensive income for the year	**223,844**	186,950

The notes on pages 56 to 140 form part of these financial statements.

Consolidated Balance Sheet

At December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	12	**223,019**	156,802
— Interests in leasehold land held for own use under operating leases	12	**36,770**	37,548
		259,789	194,350
Intangible assets	13	**19,454**	10,023
Prepayments for fixed assets		**15,506**	14,412
Goodwill	14	**2,105**	2,105
Deferred tax assets	22(b)	**9,928**	6,667
		306,782	227,557
Current assets			
Inventories	16	**84,616**	56,695
Trade and other receivables	17	**209,918**	143,817
Deposits with banks	18	**644,273**	193,595
Cash and cash equivalents	19	**928,053**	90,194
		1,866,860	484,301
Current liabilities			
Trade and other payables	20	**95,915**	152,260
Short term loan	21	**50,000**	—
Long term loan (current portion)	21	**462**	448
Redeemable convertible preference shares	25(c)(ii)	**—**	82,262
Income tax payable	22(a)	**16,941**	26,299
Deferred income	23	**128**	142
		163,446	261,411
Net current assets		**1,703,414**	222,890
Total assets less current liabilities		**2,010,196**	450,447

Consolidated Balance Sheet

At December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Long term loan	21	**3,670**	4,131
Deferred income	23	**20,688**	23,740
Deferred tax liabilities	22(b)	**15,159**	34,883
		39,517	62,754
NET ASSETS		**1,970,679**	387,693
CAPITAL AND RESERVES	25		
Share capital	25(c)	**110**	89
Reserves		**1,970,569**	387,604
TOTAL EQUITY		**1,970,679**	387,693

Approved and authorized for issue by the board of directors on March 22, 2011.

Zhaohua Chang
Chairman

Hongbin Sun
Chief Financial Officer

The notes on pages 56 to 140 form part of these financial statements.

Company Balance Sheet

At December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	15	**545,404**	524,566
Current assets			
Trade and other receivables	17	**10**	114,433
Deposits with banks	18	**600,000**	—
Cash and cash equivalents	19	**800,229**	4,162
		1,400,239	118,595
Current liabilities			
Other payables	20	**36,164**	129,653
Redeemable convertible preference shares	25(c)(ii)	**—**	82,262
Income tax payable	22(a)	**—**	4,754
		36,164	216,669
Net current assets/(liabilities)		**1,364,075**	(98,074)
Total assets less current liabilities		**1,909,479**	426,492
Non-current liabilities			
Deferred tax liabilities	22(b)	**5,146**	12,972
NET ASSETS		**1,904,333**	413,520

Company Balance Sheet

At December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
CAPITAL AND RESERVES	25(a)		
Share capital		**110**	89
Reserves		**1,904,223**	413,431
TOTAL EQUITY		**1,904,333**	413,520

Approved and authorized for issue by the board of directors on March 22, 2011.

Zhaohua Chang
Chairman

Hongbin Sun
Chief Financial Officer

The notes on pages 56 to 140 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

	Note	Share capital RMB'000 Note 25(c)(i)	Share premium RMB'000 Note 25(d)(i)	Contributed surplus RMB'000 Note 25(d)(ii)	Translation reserve RMB'000 Note 25(d)(iii)	Share-based compensation capital reserve RMB'000 Note 25(d)(iv)	Statutory general reserve RMB'000 Note 25(d)(v)	Retained earnings RMB'000	Total RMB'000
		Attributable to equity shareholders of the Company							
At January 1, 2009		89	6,638	91,893	11,569	10,263	13,828	273,323	407,603
Changes in equity for 2009:									
Profit for the year		–	–	–	–	–	–	186,373	186,373
Other comprehensive income		–	–	–	577	–	–	–	577
Total comprehensive income		–	–	–	577	–	–	186,373	186,950
Dividends approved in respect of the previous year	25(b)(ii)	–	–	(91,893)	–	–	–	(123,819)	(215,712)
Equity-settled share-based transactions	24(c)	–	–	–	–	4,841	–	–	4,841
Shares issued under the share option plans	25(c)(iii)	–	10,260	–	–	(6,249)	–	–	4,011
Expiry of share options		–	–	–	–	(1,505)	–	1,505	–
At December 31, 2009		89	16,898	–	12,146	7,350	13,828	337,382	387,693
At January 1, 2010		89	16,898	–	12,146	7,350	13,828	337,382	387,693
Changes in equity for 2010:									
Profit for the year		–	–	–	–	–	–	240,101	240,101
Other comprehensive income		–	–	–	(16,257)	–	–	–	(16,257)
Total comprehensive income		–	–	–	(16,257)	–	–	240,101	223,844
Dividends approved in respect of the previous year	25(b)(ii)	–	–	–	–	–	–	(173,571)	(173,571)
Equity-settled share-based transactions	24(c)	–	–	–	–	20,837	–	–	20,837
Shares issued under the share option plans	25(c)(iii)	–	10,923	–	–	(3,682)	–	–	7,241
Issuance of shares for initial public offering	25(c)(i)(4)	20	1,529,878	–	–	–	–	–	1,529,898
Share issuance costs	25(c)(i)(4)	–	(89,997)	–	–	–	–	–	(89,997)
Conversion of redeemable convertible preference shares	25(c)(i)(3)	1	64,733	–	–	–	–	–	64,734
At December 31, 2010		110	1,532,435	–	(4,111)	24,505	13,828	403,912	1,970,679

The notes on pages 56 to 140 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	19(b)	**283,490**	243,000
Tax paid:			
— PRC Corporate Income Tax paid		**(55,913)**	(40,423)
— PRC dividend withholding tax paid		**(31,450)**	—
— Non-PRC income tax paid		**(35)**	340
Net cash generated from operating activities		**196,092**	202,917
Investing activities			
Payment for the purchase of fixed assets		**(96,808)**	(53,884)
Proceeds from sale of fixed assets		**—**	610
Payment for the purchase of intangible assets		**—**	(300)
Expenditure on development project		**(10,166)**	—
Placement of deposits with banks with original maturities over three months		**(680,000)**	(241,000)
Uplift of deposits with banks with original maturities over three months		**231,000**	255,084
Increase in pledged deposits		**(1,678)**	(110)
Interest received		**6,908**	9,160
Payments for acquisition of a subsidiary		**—**	(3,529)
Net cash used in investing activities		**(550,744)**	(33,969)

Consolidated Statement of Cash Flows

For the year ended December 31, 2010

	Note	2010 RMB'000	2009 RMB'000
Financing activities			
Proceeds from new loans		**100,000**	—
Repayments of loans		**(50,590)**	(21,590)
Proceeds from shares issued under the share option plans	25(c)(iii)	**7,241**	4,011
Interest paid		**(3,921)**	(480)
Dividends paid to ordinary shareholders		**(275,287)**	(124,191)
Dividends paid to holder of redeemable convertible preference shares		**(7,484)**	(2,972)
Net proceeds from initial public offering		**1,422,755**	—
Net cash generated from/(used in) financing activities		**1,192,714**	(145,222)
Net increase in cash and cash equivalents		**838,062**	23,726
Cash and cash equivalents at beginning of the year		**90,194**	66,461
Effect of foreign exchange rate changes		**(203)**	7
Cash and cash equivalents at end of the year	19(a)	**928,053**	90,194

The notes on pages 56 to 140 form part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2010
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements of MicroPort Scientific Corporation ("the Company") and its subsidiaries (hereafter collectively referred to as "the Group") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

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

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(b) Basis of preparation of the financial statements — continued

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

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

(c) Subsidiaries

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in the profit or loss as a gain on a bargain purchase.

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 1(h)).

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

(e) 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 1(h)).

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.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(e) Property, plant and equipment — continued

(i) Recognition and measurement — continued

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 profit or loss.

(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 profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss 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

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(e) Property, plant and equipment — continued

(iii) Depreciation — continued

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 annually.

(f) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. Capitalized development costs are stated at cost less accumulated amortization and impairment losses (see note 1(h)). Other development expenditure is recognized as an expense in the period in which it is incurred.

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 1(h)).

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

—	Diabetes technology	17 years
—	Diabetes license	17 years
—	Trademark	35 months
—	Development costs	5 years

Both the period and method of amortization are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(g) 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 profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss 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.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(h) Impairment of assets

(i) Impairment of investments in subsidiaries and trade and other receivables

Investments in subsidiaries and 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 investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(h)(ii). The impairment loss is reversed if there has been favorable change in the estimates used to determine the recoverable amount in accordance with note 1(h)(ii).

— 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.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(h) Impairment of assets — continued

(i) Impairment of investments in subsidiaries and trade and other receivables — continued

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 profit or loss. 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 profit or loss.

(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; and

— goodwill.

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.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(h) Impairment of assets — continued

(ii) Impairment of other assets — continued

— ***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 profit or loss 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 profit or loss in the period in which the reversals are recognized.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(i) 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.

(j) 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 1(h)), 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.

(k) 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.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(l) 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 profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) 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. The preference share capital is recognized in accordance with the Group's policy for interest-bearing borrowings set out in note 1(l), except when the preference share capital is initially designated as a financial liability at fair value through profit or loss, in which 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 profit or loss as finance costs. Dividends on preference share capital classified as a liability are recognized as finance costs in profit or loss upon approval from the board.

(n) 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.

(o) Employee benefits

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

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

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(o) Employee benefits — continued

(ii) Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a share-based compensation capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest. This accounting policy also applies to share options granted to external 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 profit or loss in the period of review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation capital reserve. On the 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).

(p) 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 profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

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

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(p) Income tax — continued

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 profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(p) Income tax — continued

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.

(q) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition 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 1(q)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(q)(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 expenditure expected to settle the obligation.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(q) Provisions and contingent liabilities — continued

(ii) Other provisions and contingent liabilities — continued

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.

(r) 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 profit or loss 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 devices are delivered or picked up by the distributors from the Group's premises without any recourse.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(r) Revenue recognition — continued

(iii) Government grants — continued

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 grant income are recognized immediately as income at the time when the conditions have been fulfilled.

(s) 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 profit or loss.

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 profit or loss when the profit or loss on disposal is recognized.

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(t) 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 or 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 ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(u) Related parties

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES — continued

(v) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company.

The Group has early adopted all new and revised HKFRSs that were first effective for the accounting period beginning on January 1, 2010 since the beginning of the comparative period, except for HKFRS 3 (revised 2008) *Business Combination* and Amendments to HKAS 27, *Consolidated and Separate Financial Statements,* which have been adopted by the Group since January 1, 2010.

The impact of the majority of the revisions to HKFRS 3 and Amendments to HKAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a business combination, a disposal of subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

The Group has concluded that all new and revised HKFRSs that were first effective for the current accounting period have had no material impact on the consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The Group derives revenue principally from the sales 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 product 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. Revenue by major category of products is as follows:

	2010	2009
	RMB'000	RMB'000
Drug eluting stents	**627,756**	484,096
TAA/AAA stent grafts	**46,516**	28,864
Bare metal stents	**14,997**	20,288
Others	**38,449**	27,478
	727,718	560,726

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, medical stent related products and electrophysiology devices to appointed sales distributors.

4 SEGMENT REPORTING — continued

— 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, changes in fair value of Preference Shares, listing expenses incurred in connection with the Company's initial public offering ("IPO") of ordinary shares in September 2010, PRC dividend withholding tax and unallocated exchange gains and losses 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.

4 SEGMENT REPORTING — continued

(a) Segment results, assets and liabilities — continued

	2010			
	Vascular devices business RMB'000	Diabetes devices business RMB'000	Orthopedics devices business RMB'000	Total RMB'000
Revenue from external customers (note (d))	721,780	5,938	—	727,718
Segment net profit/(loss)	324,944	(10,540)	(15,817)	298,587
Depreciation and amortization for the year	23,896	2,228	1,697	27,821
Income tax expense	54,879	176	—	55,055
(Reversal of)/write-down of inventories	(1,942)	50	—	(1,892)
Additions to non-current segment assets	82,046	1,826	8,692	92,564
Reportable segment assets	689,438	50,446	33,484	773,368
Reportable segment liabilities	171,083	5,789	—	176,872

4 SEGMENT REPORTING — continued

(a) Segment results, assets and liabilities — continued

	2009			
	Vascular devices business RMB'000	Diabetes devices business RMB'000	Orthopedics devices business RMB'000	Total 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
(Reversal)/write-down of inventories	2,393	18	—	2,411
Additions to non-current segment assets	72,274	3,861	8,193	84,328
Reportable segment assets	599,142	56,973	49,432	705,547
Reportable segment liabilities	88,628	4,408	10	93,046

4 SEGMENT REPORTING — continued

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

	2010 RMB'000	2009 RMB'000
Profit		
Reportable segment net profit	**298,587**	230,744
Equity-settled share-based compensation expenses (note 24(c))	**(20,837)**	(4,841)
Withholding tax on retained earnings of a PRC subsidiary	**—**	(23,421)
Dividends on redeemable convertible preference shares	**(4,888)**	(5,568)
Change in fair value of redeemable convertible preference shares	**17,528**	(10,184)
Listing expenses	**(17,146)**	—
Unallocated exchange loss	**(30,802)**	—
Unallocated income and expenses	**(2,341)**	(357)
Consolidated profit for the year	**240,101**	186,373

	2010 RMB'000	2009 RMB'000
Assets		
Reportable segment assets	**773,368**	705,547
Unallocated corporate assets	**1,400,274**	6,311
Consolidated total assets	**2,173,642**	711,858
Liabilities		
Reportable segment liabilities	**176,872**	93,046
Unallocated corporate liabilities	**26,091**	231,119
Consolidated total liabilities	**202,963**	324,165

Unallocated income and expenses mainly include corporate administration costs.

4 SEGMENT REPORTING — continued

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

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

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

(c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered. Revenue attributable to individual countries except for 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.

	2010 RMB'000	2009 RMB'000
The PRC (place of domicile)	**673,135**	501,252
Asia	**24,671**	31,192
South America	**18,176**	15,495
Europe	**11,736**	12,787
	54,583	59,474
	727,718	560,726

4 SEGMENT REPORTING — continued

(d) Major customers

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

	Vascular devices business	
	2010	2009
	RMB'000	RMB'000
Customer A	**156,943**	98,544
Customer B	**83,314**	56,873
Customer C	**83,834**	63,213
	324,091	218,630

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

	2010	2009
	RMB'000	RMB'000
Other revenue		
Government grant income	**18,018**	14,672
Interest income on bank deposits	**4,314**	7,592
Others	**522**	255
	22,854	22,519
Other net loss		
Loss on disposal of fixed assets	**15**	1,694
Net foreign exchange loss	**30,508**	173
	30,523	1,867

6 PROFIT BEFORE TAXATION

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

	2010 **RMB'000**	2009 RMB'000
(a) Finance income/(expense)		
Interest on borrowings wholly repayable within five years	**3,311**	814
Interest on other borrowings	**274**	306
Bank charges	**479**	281
Total interest expense on financial liabilities not at fair value through profit or loss	**4,064**	1,401
Dividends on redeemable convertible preference shares (note 25(b)(iii))	**4,888**	5,568
Change in fair value of redeemable convertible preference shares	**(17,528)**	10,184
	(8,576)	17,153

No interest expenses were capitalized by the Group during the year.

	2010 **RMB'000**	2009 RMB'000
(b) Staff costs		
Salaries and allowances	**124,401**	99,040
Contributions to defined contribution retirement schemes	**24,735**	12,299
Equity-settled share-based compensation expenses (note 24(c))	**20,817**	4,691
	169,953	116,030

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

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

6 PROFIT BEFORE TAXATION — continued

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

	2010 RMB'000	2009 RMB'000
(c) Other items		
Cost of inventories (note 16(b))	**123,901**	98,056
Depreciation	**26,308**	19,730
Amortization of interests in leasehold land held for own use under operating leases	**778**	778
Amortization of intangible assets	**735**	719
Impairment/(reversal of) impairment losses:		
— fixed assets	**—**	473
— trade receivables (net)	**(28)**	(17)
Operating lease charges in respect of properties	**2,832**	1,861
Listing expenses	**17,146**	—
Auditors' remuneration	**2,440**	169

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2010 RMB'000	2009 RMB'000
Current tax — PRC Corporate Income Tax ("CIT")		
Provision for the year	**78,105**	54,882
(Over)/under provision in respect of prior years	**(164)**	301
	77,941	55,183
Current tax — Overseas		
Provision for the year	**99**	34
Deferred tax		
Origination and reversal of temporary differences	**(22,985)**	8,165
	55,055	63,382

The following describes the applicable tax rates for the Company and its major operating subsidiaries. The particulars of the Company's subsidiaries are disclosed in note 15 to these financial statements.

The Company is incorporated in the Cayman Islands. The Company's subsidiaries, namely MicroPort Medical Limited ("MP Medical") and Leader City Limited ("Leader City") are incorporated in the British Virgin Islands ("BVI"). 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.

MicroPort Medical MP B.V. ("MP B.V.") is subject to Netherlands corporate income tax which is charged at progressive rates ranging from 20% to 25.5% for both the year ended December 31, 2009 and 2010.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT — continued

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

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

All of the other PRC subsidiaries of the Group are subject to income tax at 25% (2009: 25%).

According to the 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 (note 22).

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2010 **RMB'000**	2009 RMB'000
Profit before taxation	**295,156**	249,755
PRC statutory income tax rate	**25%**	25%
Computed "expected" income tax expense	**73,789**	62,439
Effect of PRC preferential tax rate	**(36,614)**	(28,933)
Effect of Netherlands' tax rate differential	**(25)**	(9)
Effect of entities not subject to income tax	**9,412**	4,026
Effect of non-deductible equity-settled share-based compensation expenses	**5,210**	1,210
Effect of other non-deductible expenses	**2,731**	1,648
Effect of deemed taxable income (note)	**2,029**	4,122
Effect of super-deduction on research and development expenses	**(5,918)**	(6,002)
Effect of tax losses not recognized	**4,605**	1,159
Withholding tax on retained earnings of a PRC subsidiary	**—**	23,421
(Over)/under provision in respect of prior years	**(164)**	301
Actual income tax expense	**55,055**	63,382

Note: The amount represents the CIT payable in respect of the deemed sales of the free goods offered to the Group's customers for marketing and promotional use.

8 DIRECTORS' REMUNERATION

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

	2010					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based compensation (Note) RMB'000	Total RMB'000
Executive directors						
Zhaohua Chang	–	780	1,056	–	4,439	6,275
Yan Zhang	–	1,200	1,312	43	1,783	4,338
Hongbin Sun	–	409	800	12	1,666	2,887
Qiyi Luo	–	1,270	973	–	1,129	3,372
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Xiaolong Liu	–	–	–	–	–	–
Independent non-executive directors						
Zezhao Hua	50	–	–	–	–	50
Jonathan Chou	60	–	–	–	–	60
Guoen Liu	50	–	–	–	–	50
	160	3,659	4,141	55	9,017	17,032

8 DIRECTORS' REMUNERATION — continued

	2009					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based compensation RMB'000	Total RMB'000
Executive directors						
Zhaohua Chang	–	656	–	–	–	656
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Fang Yao	–	–	–	–	–	–
Xiaolong Liu	–	–	–	–	–	–
	–	656	–	–	–	656

Note: This represents the estimated fair value of share options granted to the directors under the Company's share option scheme (note 24). 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 1(o)(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.

During the year ended December 31, 2010, there were no amounts paid or payable by the Company 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 (2009: Nil).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three were directors of the Company during the year ended December 31, 2010 (2009: none). The aggregate of the emoluments in respect of the other two (2009: five) are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and other benefits	**2,230**	4,065
Retirement scheme contributions	**—**	129
Discretionary bonuses	**1,738**	4,366
Share-based compensation (note)	**3,784**	1,714
	7,752	10,274

Note: This represents the estimated fair value of share options granted to the individuals with the highest emoluments under the Company's share option scheme (note 24). 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 1(o)(ii) and, in accordance with the policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

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

	2010 **Number of individuals**	2009 Number of individuals
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**—**	2
HK$2,500,001 to HK$3,000,000	**—**	2
HK$3,500,001 to HK$4,000,000	**1**	—
HK$5,000,001 to HK$5,500,000	**1**	—

During the year ended December 31, 2010, there were no amounts paid or payable by the Company to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office; and there was no arrangement under which the above highest paid individuals waived or agreed to waive any remuneration (2009: Nil).

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB37,555,000 (2009: RMB25,461,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amounts to the Company's profit for the year:

	2010 RMB'000	2009 RMB'000
Amount of consolidated loss dealt with in the Company's financial statements	(37,555)	(25,461)
Final dividend from subsidiaries in respect of the previous financial year, approved during the year	184,249	231,256
Company's profit for the year (note 25(a))	146,694	205,795

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 is based on the profit attributable to ordinary equity shareholders and the weighted average number of shares during the year, taking into account the 10-for-1 share split (the "Share Split") of the Company's ordinary shares occurred on September 24, 2010 as if the share split had occurred at the beginning of the years presented (note 25(c)(i)(1)).

Weighted average number of ordinary shares

	2010 Number of shares '000	2009 Number of shares '000
Ordinary shares as if in issue at January 1	1,135,040	1,130,643
Effect of share options exercised (note 25(c)(iii))	2,630	557
Effect of issuance of shares for placing and the initial public offering (note 25(c)(i)(4))	78,523	—
Effect of conversion of redeemable convertible preference shares (note 25(c)(ii))	3,335	—
Weighted average number of ordinary shares during the year	1,219,528	1,131,200

11 EARNINGS PER SHARE — continued

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the 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)

	2010 Number of shares '000	2009 Number of shares '000
Weighted average number of ordinary shares during the year	**1,219,528**	1,131,200
Effect of deemed issue of shares under the Company's option scheme at nil consideration (note 24)	**2,995**	10,434
Weighted average number of ordinary shares during the year	**1,222,523**	1,141,634

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, 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	**–**	**–**	**–**	**(17)**	**–**	**(37)**	**–**	**(54)**	**–**	**(54)**
Transfer	**24,021**	**2,973**	**28,555**	**181**	**–**	**35**	**(55,765)**	**–**	**–**	**–**
Additions	**1,877**	**5,993**	**11,957**	**5,515**	**–**	**3,263**	**63,959**	**92,564**	**–**	**92,564**
Disposals	**–**	**(5)**	**(174)**	**(622)**	**–**	**–**	**–**	**(801)**	**–**	**(801)**
At December 31, 2010	**95,532**	**31,261**	**117,812**	**20,721**	**11,963**	**11,091**	**28,785**	**317,165**	**38,913**	**356,078**

12 FIXED ASSETS — continued

(a) The Group — continued

	Buildings held for own use RMB'000	Leasehold improvements RMB'000	Equipment and machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Accumulated depreciation, amortization and impairment:										
At January 1, 2009	4,488	3,225	33,070	4,986	3,536	3,553	–	52,858	587	53,445
Exchange adjustments	–	–	–	2	–	4	–	6	–	6
Charge for the year	1,310	2,153	10,345	2,304	1,652	1,966	–	19,730	778	20,508
Impairment loss	–	–	473	–	–	–	–	473	–	473
Written back on disposals	–	(1)	(4,307)	(105)	–	–	–	(4,413)	–	(4,413)
At December 31, 2009	5,798	5,377	39,581	7,187	5,188	5,523	–	68,654	1,365	70,019
At January 1, 2010	**5,798**	**5,377**	**39,581**	**7,187**	**5,188**	**5,523**	**–**	**68,654**	**1,365**	**70,019**
Exchange adjustments	**–**	**–**	**–**	**(10)**	**–**	**(20)**	**–**	**(30)**	**–**	**(30)**
Charge for the year	**1,706**	**3,809**	**14,337**	**2,867**	**2,086**	**1,503**	**–**	**26,308**	**778**	**27,086**
Written back on disposals	**–**	**(6)**	**(215)**	**(565)**	**–**	**–**	**–**	**(786)**	**–**	**(786)**
At December 31, 2010	**7,504**	**9,180**	**53,703**	**9,479**	**7,274**	**7,006**	**–**	**94,146**	**2,143**	**96,289**
Net book value:										
At December 31, 2010	**88,028**	**22,081**	**64,109**	**11,242**	**4,689**	**4,085**	**28,785**	**223,019**	**36,770**	**259,789**
At December 31, 2009	63,836	16,923	37,893	8,477	6,775	2,307	20,591	156,802	37,548	194,350

12 FIXED ASSETS — continued

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

	The Group	
	2010	2009
	RMB'000	RMB'000
In the PRC		
— medium-term leases	**124,798**	101,384
Representing:		
Buildings held for own use	**88,028**	63,836
Interests in leasehold land held for own use under operating leases	**36,770**	37,548
	124,798	101,384

(c) As at December 31, 2010, buildings held for own use with net book value of RMB27,185,000 (2009: RMB30,164,000) have been pledged as security for a long term loan (note 21(b)).

13 INTANGIBLE ASSETS

The Group

	Diabetes technology RMB'000	Diabetes license RMB'000	Trademark RMB'000	Development costs RMB'000	Total RMB'000
Cost:					
At January 1, 2009	8,128	2,630	—	—	10,758
Additions	—	—	300	—	300
At December 31, 2009	8,128	2,630	300	—	11,058
At January 1, 2010	**8,128**	**2,630**	**300**	**—**	**11,058**
Additions through internal development	**—**	**—**	**—**	**10,166**	**10,166**
At December 31, 2010	**8,128**	**2,630**	**300**	**10,166**	**21,224**
Accumulated amortization:					
At January 1, 2009	239	77	—	—	316
Charge for the year	478	155	86	—	719
At December 31, 2009	717	232	86	—	1,035
At January 1, 2010	**717**	**232**	**86**	**—**	**1,035**
Charge for the year	**478**	**155**	**102**	**—**	**735**
At December 31, 2010	**1,195**	**387**	**188**	**—**	**1,770**
Net book value:					
At December 31, 2010	**6,933**	**2,243**	**112**	**10,166**	**19,454**
At December 31, 2009	7,411	2,398	214	—	10,023

The amortization charge for the year was included as "administrative expenses" in the consolidated income statement. Development costs will commence amortization when the development stage of the related products is completed and the products are available for sale.

14 GOODWILL

The Group

	RMB'000
Cost and carrying amount:	
At January 1, 2009, December 31, 2009, January 1, 2010 and December 31, 2010	**2,105**

Impairment tests for cash-generating unit containing goodwill

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

	2010 RMB'000	2009 RMB'000
Diabetes devices business	**2,105**	2,105

The recoverable amount of the CGU is determined based on value-in-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 segment.

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 **RMB'000**	2009 RMB'000
Unlisted investments, at cost	**545,404**	524,566

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES — continued

The following list contains the particulars of subsidiaries of the Group at December 31, 2010:

Name of company	Place and date of incorporation/ establishment/ acquisition	Issued, fully paid up and registered capital	Attributable equity interest Direct %	Indirect %	Principal activity
MP Medical	BVI, July 25, 2006	USD2	100	–	Investment holding
Leader City	BVI, April 12, 2006	USD2	100	–	Investment holding
MP B.V.	The Netherlands, acquired on September 4, 2006	EUR18,000	100	–	Marketing and distribution of the Group's product
MP Shanghai (微創醫療器械 (上海) 有限公司)*	The PRC, (wholly foreign owned enterprise) 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, (limited liability company) April 28, 2008	RMB45,000,000	–	100	Manufacturing, distribution, research and development of medical 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, (limited liability company) acquired on June 2, 2008	RMB3,000,000	–	100	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Orthopedics Co., Ltd. ("MP Orthopedics") (上海微創骨科醫療科技有限公司)*	The PRC, (limited liability company) May 18, 2009	RMB45,000,000	–	100	Distribution, research and development of orthopedics devices
Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司)*	The PRC, (limited liability company) August 31, 2010	RMB45,000,000	–	100	Distribution, research and development of electrophysiology devices

* 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 sheet comprise:

	The Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	**51,596**	29,560
Work in progress	**16,093**	15,225
Finished goods	**16,927**	11,910
	84,616	56,695

All inventories are expected to be recovered within one year.

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold	**100,097**	75,626
Write-down of inventories	**2,005**	2,411
Reversal of write-down of inventories	**(3,897)**	—
Cost of inventories sold	**98,205**	78,037
Cost of inventories directly recognized as research and development costs	**25,696**	20,019
Cost of inventories	**123,901**	98,056

The reversal of write-down of inventories made in prior years was related to reassessment of the utilization rates of certain raw materials for the production of vascular devices due to the change of market demand for the related products.

17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**198,042**	121,672	**—**	—
Amounts due from related parties (note 28(c))	**6,373**	14,701	**—**	—
	204,415	136,373	**—**	—
Less: Allowance for doubtful debts	**(2,523)**	(2,551)	**—**	—
	201,892	133,822	**—**	—
Deposits and prepayments	**5,525**	6,089	**—**	—
Amounts due from subsidiaries	**—**	—	**10**	114,433
Other receivables	**2,501**	3,906	**—**	—
	209,918	143,817	**10**	114,433

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

(a) Ageing 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 ageing analysis as of the balance sheet dates:

	The Group	
	2010	2009
	RMB'000	RMB'000
Current	**199,321**	130,346
Less than 1 month past due	**2,075**	3,247
1 to 3 months past due	**186**	28
More than 3 months past due	**310**	201
Amounts past due	**2,571**	3,476
	201,892	133,822

17 TRADE AND OTHER RECEIVABLES — continued

(a) Ageing analysis — continued

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

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are 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 1(h)(i)).

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

	The Group	
	2010	2009
	RMB'000	RMB'000
At January 1	**2,551**	6,148
Net impairment loss reversed	**(28)**	(17)
Uncollectible amounts written off	**—**	(3,580)
At December 31	**2,523**	2,551

The Group's trade receivables of RMB2,523,000 (2009: RMB2,551,000) were individually determined to be impaired as at December 31, 2010. The individually impaired receivables related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered. During the year ended December 31, 2010, no specific or general allowance for doubtful debts was recognized (2009: RMB188,000). The Group does not hold any collateral over these balances.

18 DEPOSITS WITH BANKS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks with original maturities over three months	**640,000**	191,000	**600,000**	—
Pledged deposits with banks	**4,273**	2,595	**—**	—
	644,273	193,595	**600,000**	—

Included in pledged deposits with banks, RMB651,000 (2009: RMB651,000) was pledged to a bank as at December 31, 2010 as security for the long term loan from Shanghai Municipal Financial Administration ("SMFA") (note 21(b)). The remaining pledged deposits are pledged for use of business credit cards in the PRC.

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at banks and in hand	**928,053**	90,194	**800,229**	4,162

As at December 31, 2010, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB124,917,000 (2009: RMB85,232,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

19 CASH AND CASH EQUIVALENTS — continued

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

	Note	**2010 RMB'000**	2009 RMB'000
Profit before taxation		**295,156**	249,755
Adjustments for:			
Depreciation	6(c)	**26,308**	19,730
Amortization of interests in leasehold land held for own use under operating leases	6(c)	**778**	778
Amortization of intangible assets	6(c)	**735**	719
Impairment loss on fixed assets	6(c)	**—**	473
Net reversal of impairment loss on trade receivables	6(c)	**(28)**	(17)
Listing expenses	6(c)	**17,146**	—
Finance (income)/expense	6(a)	**(8,576)**	17,153
Interest income on bank deposits	5	**(4,314)**	(7,592)
Loss on disposal of fixed assets	5	**15**	1,694
Equity-settled share-based compensation expenses	24(c)	**20,837**	4,841
Changes in working capital:			
Increase in inventories		**(27,921)**	(8,219)
Increase in trade and other receivables		**(68,668)**	(30,731)
Increase/(decrease) in trade and other payables		**35,088**	(12,334)
(Decrease)/increase in deferred income		**(3,066)**	6,750
Cash generated from operations		**283,490**	243,000

20 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**11,184**	5,176	**—**	—
Receipts in advance	**438**	131	**—**	—
Other payables and accruals	**84,064**	42,412	**12,997**	—
Amounts due to subsidiaries	**—**	—	**22,938**	25,112
Dividends payable to ordinary shareholders	**229**	101,945	**229**	101,945
Dividends payable to holder of redeemable convertible preference shares	**—**	2,596	**—**	2,596
	95,915	152,260	**36,164**	129,653

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

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet dates:

	The Group	
	2010	2009
	RMB'000	RMB'000
Due within 1 month or on demand	**9,274**	4,991
Due after 1 month but within 3 months	**1,223**	44
Due after 3 months but within 6 months	**687**	141
	11,184	5,176

21 SHORT-TERM AND LONG-TERM LOANS

As at December 31, 2010, the short-term and long-term loans were repayable as follows:

		The Group	
		2010	2009
	Note	**RMB'000**	RMB'000
Within 1 year			
— short-term loan	(a)	**50,000**	—
— long-term loan (current portion)	(b)	**462**	448
		50,462	448
After 1 year but within 2 years	(b)	**476**	462
After 2 years but within 5 years	(b)	**1,519**	1,473
After 5 years	(b)	**1,675**	2,196
		3,670	4,131
		54,132	4,579

(a) Loan from China CITIC Bank

On January 12, 2010, MP Shanghai entered into an one-year loan agreement for RMB50,000,000 with China CITIC Bank. The loan bears interest at a fixed rate of 4.779% per annum and was fully repaid in January 2011.

(b) Loan from SMFA

On September 9, 2003, MP Shanghai entered into a 15 year long-term loan agreement with SMFA (the "SMFA loan"). The SMFA loan bears a variable interest rate which is determined based on the annual deposit rate as quoted by The People's Bank of China on each September 29, plus 0.3 percent. Interest is paid annually. The actual interest paid during the year ended December 31, 2010 amounted to RMB131,000 (2009: RMB150,000).

The loan is guaranteed by China Construction Bank, and is payable in 11 instalments 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.

In addition, the SMFA loan is secured by (i) the buildings held for own use with net book value of RMB27,185,000 at December 31, 2010 (2009: RMB30,164,000) (note 12(c)); and (ii) deposits with banks of RMB651,000 at December 31, 2010 (2009: RMB651,000) (note 18).

21 SHORT-TERM AND LONG-TERM LOANS — continued

(b) Loan from SMFA — continued

The SMFA loan was initially recorded at fair value with reference to the borrowing rates available for bank loans with similar terms and maturities. The SMFA 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 1(l). The difference between the fair value and the face value is regarded as government grant received by the Group, which is amortized as government grant income to the consolidated income statement over the period of the loan, using the effective interest method (note 23).

The fair value of the SMFA loan at initial recognition amounted to RMB4,809,000. Besides the actual interest paid, additional interest expense of RMB143,000 (2009: RMB156,000) and related government grant income of RMB143,000 (2009: RMB156,000) were recognized in the consolidated income statement for the year ended December 31, 2010.

22 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provision for PRC CIT for the year (note)	**78,105**	54,882	**7,826**	4,754
Provisional tax paid (note)	**(61,244)**	(28,599)	**(7,826)**	—
	16,861	26,283	**—**	4,754
Tax payable by the subsidiary outside of the PRC	**80**	16	**—**	—
	16,941	26,299	**—**	4,754

Note: On July 9, 2010, MP Shanghai declared to the Company, MP Medical and Leader City dividends in total amounting to RMB195,657,000, of which the entire amount was attributable to earnings generated since January 1, 2008. Accordingly, the Group has paid dividend withholding tax of RMB19,566,000 for the dividend declared by MP Shanghai during 2010.

The Company directly holds 40% equity interest in MP Shanghai and therefore the Company bore 40% of the total withholding tax of RMB19,566,000. The remaining 60% withholding tax was borne by MP Medical and Leader City.

22 INCOME TAX IN THE BALANCE SHEETS — continued

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

(i) The Group

Deferred tax arising from:	Allowance for doubtful debts	Provision for inventories	Other provisions	Intangible assets	Withholding tax on retained earnings of a PRC subsidiary	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2009	(956)	(1,802)	(696)	2,611	20,894	20,051
Charged/(credited) to profit or loss	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**
Charged/(credited) to profit or loss	**3**	**588**	**(3,852)**	**(158)**	**(19,566)**	**(22,985)**
At December 31, 2010	**(384)**	**(1,180)**	**(8,364)**	**2,294**	**12,865**	**5,231**

(ii) The Company

Deferred tax arising from:	Withholding tax on retained earnings of a PRC subsidiary
	RMB'000
At January 1, 2009	8,358
Charged to profit or loss	4,614
At December 31, 2009	12,972
At January 1, 2010	**12,972**
Credited to profit or loss	**(7,826)**
At December 31, 2010	**5,146**

22 INCOME TAX IN THE BALANCE SHEETS — continued

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

(iii) Reconciliation to the balance sheets

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax assets recognized in the balance sheets	**(9,928)**	(6,667)	**—**	—
Net deferred tax liabilities recognized in the balance sheets	**15,159**	34,883	**5,146**	12,972
	5,231	28,216	**5,146**	12,972

(c) Deferred tax assets/liabilities not recognized

In accordance with the accounting policy set out in note 1(p), the Group did not recognize deferred tax assets in respect of tax losses attributable to certain subsidiaries of RMB23,118,000 at December 31, 2010 (2009: RMB4,700,000), as the directors consider that 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. At December 31, 2010, tax losses of RMB66,000, RMB4,634,000 and RMB18,418,000 will expire on December 31, 2013, 2014 and 2015 respectively.

(d) Deferred tax liabilities not recognized

As at December 31, 2010, no deferred tax liability was recognized in respect of the temporary differences relating to the undistributed profits of a PRC subsidiary amounting to RMB302,383,000, as the Group controls the dividend policy of this subsidiary and has determined 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 (note) RMB'000	Government grant through low-interest loans RMB'000	Total RMB'000
At January 1, 2009	15,471	1,661	17,132
Additions during the year	11,970	—	11,970
Government grant recognized as other revenue	(4,299)	(921)	(5,220)
At December 31, 2009	23,142	740	23,882
At January 1, 2010	**23,142**	**740**	**23,882**
Additions during the year	**4,356**	**—**	**4,356**
Government grant recognized as other revenue	**(7,279)**	**(143)**	**(7,422)**
At December 31, 2010	**20,219**	**597**	**20,816**

	2010 RMB'000	2009 RMB'000
Represented by:		
Current portion	**128**	142
Non-current portion	**20,688**	23,740
	20,816	23,882

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

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On September 3, 2010, the Company approved a 10-for-1 share split of the Company's ordinary shares conditional on the completion of IPO (note 25(c)(i)). The 10-for-1 split also applies to the Company's share option plans, each vested share option can be exercised for 10 ordinary shares of the Company after the 10-for-1 split has taken place.

(a) The 2004 share option plan

On February 20, 2004, MicroPort Medical (Cayman) Corporation ("MP Cayman"), the intermediate holding company of MP Shanghai prior to the reorganization completed on December 31, 2006 (the "Reorganization"), adopted in 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 external consultants of MP Shanghai.

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

On January 10, 2007 (the "modification date"), the Company agreed to assume the obligation of all outstanding and unvested share options of MP Cayman under the 2004 Option Plan. Each of the 1,391,785 outstanding share options of MP Cayman, including 1,009,760 exercisable one year after the consummation of an 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.

(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

(a) The 2004 share option plan — continued

(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, external consultants and employees	1,009,760	Vested immediately on grant date	10 years
Options granted to two executives (note)	382,025	Vested one to two years from the modification date	8 years and 9 months
Total share options granted	1,391,785		

Note: These share options were either exercised or forfeited during 2007 and 2008.

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

	2010		2009	
	Weighted average exercise price RMB	**Number of options**	Weighted average exercise price RMB	Number of options
Outstanding at the beginning and the end of the year	**1.26**	**1,009,760**	1.26	1,009,760
Exercisable at the end of the year	**—**	**—**	—	—

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

(b) The 2006 share option plan

On August 26, 2006, the Company adopted 2006 Share Incentive Plan (the "2006 Option Plan"), under which the board of directors authorized, at their discretion, the issuance of share options to the executives, employees and external consultants of MP Shanghai. Each option gives the holder the right to subscribe for one ordinary share of the Company, taking into consideration of the 10-for-1 share split.

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

Options granted to executives on:	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Weighted average exercise price RMB (note)
March 2, 2007	3,635,362	41,372	11.38	14.94
April 2, 2007	145,000	1,180	8.14	21.26
June 14, 2007	50,000	234	4.68	23.35
June 25, 2008	370,000	2,273	6.14	20.90
December 1, 2008	420,000	4,020	9.57	20.98
October 21, 2009	600,000	8,238	13.73	20.91
July 9, 2010	2,864,873	53,101	18.54	20.75
August 9, 2010	500,000	10,882	21.76	20.73
	8,585,235	121,300		

The above share options are vested in installments over an explicit vesting period of four to five years. The vesting condition is the 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 the options granted to executives is 10 years.

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

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

(b) The 2006 share option plan — continued

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

Options granted to employees on:	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Weighted average exercise price RMB
April 23, 2007	750,000	6,115	8.15	21.25
February 6, 2009	25,000	232	9.28	29.06
July 8, 2010	123,094	2,462	20.00	20.75
	898,094	8,809		

The above share options were granted to 527 employees and are vested in installments over an explicit vesting period of four to six years. The vesting schedule of each employee is different and is determined based on the date of employment. The vesting condition is the 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 the options is from the employment commencement date to March 1, 2013, February 5, 2015 and July 7, 2020 for the options granted on April 23, 2007, February 6, 2009 and July 8, 2010 respectively.

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

(b) The 2006 share option plan — continued

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

Options granted to consultants on:	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Weighted average exercise price RMB (note)
May 17, 2007	150,000	747	4.98	23.51
June 14, 2007	50,000	255	5.10	23.35
	200,000	1,002		
Total options granted under the 2006 Option Plan	9,683,329	131,111		

The above share options are vested in installments over an explicit vesting period of four to five years. The vesting condition is the 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. The options granted on June 14, 2007 are exercisable upon conclusion of an IPO of the Company's shares.

Note: The weighted average exercise price for each of the grants on May 17, 2007 and June 14, 2007 has been adjusted to reflect the change in exercise price approved on March 9, 2010 (note 24(b)(iii)). The weighted average exercise prices in respect of these grants before the change of exercise price were RMB32.63 and RMB32.41 respectively.

(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

(b) The 2006 share option plan — continued

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

	2010		2009	
	Weighted average exercise price RMB	**Number of options**	Weighted average exercise price RMB	Number of options
Outstanding at the beginning of the year	**27.50**	**2,554,618**	24.22	2,665,141
Granted during the year	**20.75**	**3,487,967**	21.23	625,000
Exercised during the year	**17.95**	**(403,379)**	9.12	(439,741)
Forfeited during the year	**18.78**	**(26,804)**	12.09	(295,782)
Outstanding at the end of the year (note)	**16.17**	**5,612,402**	27.50	2,554,618
Exercisable at the end of the year (note)	**26.66**	**1,050,644**	31.31	838,743

Note: The weighted average exercise prices for options outstanding and exercisable at December 31, 2010 have been adjusted to reflect the change of exercise price approved on March 9, 2010 (note 24(b)(iii)).

All the share options granted are exercisable by the grantees upon vesting and will expire in April 2016 through January 2017. As at December 31, 2010, the weighted average remaining contractual life for the share options granted under the 2006 Option Plan was 8.45 years (2009: 7.58 years).

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

On March 9, 2010, the Board approved a modification to the 2006 Option Plan, to reduce the exercise price from 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 prices of the above share options resulted in an incremental fair value of RMB2,160,000 at the modification date. The incremental fair value is being recognized as equity-settled share-based compensation expenses over the remaining four to five years of the vesting period.

(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

(b) The 2006 share option plan — continued

(iv) Fair value of share options and assumptions

The fair value of services received in return for share options 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.

Fair value of share options and assumptions	2010
Fair value	USD2.44 to USD3.47
Share price	USD4.96 to USD5.56
Exercise price	USD3.062
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial option pricing model)	54.7% to 54.9%
Option life	10 years
Suboptimal exercise factor	1.5
Expected dividend yield	0.83% to 1.17%
Average risk-free interest rate (based on Exchange Fund Notes)	2.20% to 2.34%
Forfeiture rate	5% to 6%

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

Expected dividend yield is based on historical dividends.

Changes in the subjective input assumptions could materiality affect the fair value estimate.

In respect of share options granted during 2010, no service condition has 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.

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS — continued

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

	2010 RMB'000	2009 RMB'000
Research and development costs	**3,334**	781
Sales and marketing costs	**9,376**	2,197
Administrative expenses	**8,127**	1,863
	20,837	4,841
Represented by:		
Staff costs (note 6(b))	**20,817**	4,691
Cost of employing consultants	**20**	150
	20,837	4,841

The share options under the 2004 Modified Plan and the 2006 Option Plan were granted to executives, employees and external 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.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital RMB'000 Note 25(c)(i)	Share premium RMB'000 Note 25(d)(i)	Contributed surplus RMB'000 Note 25(d)(ii)	Translation reserve RMB'000 Note 25(d)(iii)	Share-based compensation capital reserve RMB'000 Note 25(d)(iv)	Retained earnings RMB'000	Total RMB'000
At January 1, 2009		89	6,638	91,893	8,671	10,263	296,984	414,538
Changes in equity for 2009:								
Profit for the year		–	–	–	–	–	205,795	205,795
Other comprehensive income		–	–	–	47	–	–	47
Total comprehensive income		–	–	–	47	–	205,795	205,842
Dividends approved in respect of the previous year	25(b)(ii)	–	–	(91,893)	–	–	(123,819)	(215,712)
Equity-settled share-based transactions	24(c)	–	–	–	–	4,841	–	4,841
Shares issued under the share option plans	25(c)(iii)	–	10,260	–	–	(6,249)	–	4,011
Expiry of share options		–	–	–	–	(1,505)	1,505	–
At December 31, 2009 and January 1, 2010		**89**	**16,898**	**–**	**8,718**	**7,350**	**380,465**	**413,520**
Changes in equity for 2010:								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**146,694**	**146,694**
Other comprehensive income		**–**	**–**	**–**	**(15,023)**	**–**	**–**	**(15,023)**
Total comprehensive income		**–**	**–**	**–**	**(15,023)**	**–**	**146,694**	**131,671**
Dividends approved in respect of the previous year	25(b)(ii)	**–**	**–**	**–**	**–**	**–**	**(173,571)**	**(173,571)**
Equity-settled share-based transactions	24(c)	**–**	**–**	**–**	**–**	**20,837**	**–**	**20,837**
Shares issued under the share option plans	25(c)(iii)	**–**	**10,923**	**–**	**–**	**(3,682)**	**–**	**7,241**
Issuance of shares for initial public offering	25(c)(i)(4)	**20**	**1,529,878**	**–**	**–**	**–**	**–**	**1,529,898**
Share issuance costs	25(c)(i)(4)	**–**	**(89,997)**	**–**	**–**	**–**	**–**	**(89,997)**
Conversion of redeemable convertible preference shares	25(c)(i)(3)	**1**	**64,733**	**–**	**–**	**–**	**–**	**64,734**
At December 31, 2010		**110**	**1,532,435**	**–**	**(6,305)**	**24,505**	**353,588**	**1,904,333**

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(b) Dividends

The dividend per share information has taken into account the 10-for-1 share split of the Company's ordinary shares which occurred on September 24, 2010 (note 25 (c)(i)).

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

	2010	2009
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of HK$5 cents (equivalent to RMB4 cents) per ordinary share (2009: US$2.21 cents (equivalent to RMB15 cents) per ordinary share)	**60,652**	171,203

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

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

	2010	2009
	RMB'000	RMB'000
Dividend in respect of the previous financial year, approved during the year, of US$0.07 cents (equivalent to RMB0.47 cents) per share	**2,368**	—
Final dividend in respect of the previous financial year, approved during the year, of US$2.21 cents (equivalent to RMB15 cents) per share (2009: US$2.78 cents (equivalent to RMB19 cents) per share)	**171,203**	215,712
	173,571	215,712

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(b) Dividends — continued

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

Dividends payable to the holder of Preference Shares of the Company attributable to the year

	2010 RMB'000	2009 RMB'000
Final dividend proposed after the balance sheet date, of HK$nil cents per share (2009: US$5.85 cents (equivalent to RMB40 cents per share))	–	4,888

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

Dividends payable to holder of Preference Shares of the Company attributable to the previous financial year, approved and paid during the year

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved during the year, of US$5.85 cents (equivalent to RMB40 cents) (2009: US$6.63 cents (equivalent to RMB45 cents) per share)	4,888	5,568

Dividends were distributed to holder of Preference Shares in accordance with the terms of Preference Shares as described in note 25(c)(ii). Dividends on Preference Shares are classified as finance costs (note 6(a)) in profit or loss.

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital

(i) Ordinary shares

	2010		2009	
	No. of shares '000	Amounts RMB'000	No. of shares '000	Amounts RMB'000
Authorized:				
Ordinary shares of USD0.00001 each	4,987,702	397	4,987,702	397
Ordinary shares, issued and fully paid:				
At January 1	1,135,040	89	1,130,643	89
Shares issued under share option schemes (note 25(c)(iii))	4,034	—	4,397	—
Issuance of shares for placing and initial public offering (note 25(c)(i)(4))	290,651	20	—	—
Conversion of Preference Shares (note 25(c)(i)(3))	12,298	1	—	—
At December 31	1,442,023	110	1,135,040	89

(1) On September 3, 2010, the Board approved a 10-for-1 share split of the Company's ordinary shares and the redeemable convertible preference shares conditional on the completion of the IPO. The historical share information of the Company has been adjusted retrospectively as if the share split had occurred at the beginning of the years presented.

(2) 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.

(3) On September 24, 2010, all 12,298,170 outstanding (after the effect of the Share Split) Preference Shares were converted to 12,298,170 ordinary shares of the Company. The estimated fair value of the Preference Shares at September 24, 2010 of RMB64,734,000 (par value of US$0.00001) was credited to equity upon conversion.

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital — continued

(i) Ordinary shares — continued

(4) On September 24, 2010, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited following the completion of its initial public offering of 252,740,000 shares to the investors. On September 27, 2010, further 37,911,000 shares were issued pursuant to the exercise of the over-allotment option. The proceeds of USD3,000 (equivalent to RMB20,000) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds of RMB1,529,878,000, less the share issuance costs of RMB89,997,000, were credited to the Company's share premium account.

(ii) Preference Shares

As part of the Reorganization, the Company issued 12,298,170 Preference Shares (after the effect of the Share Split), par value of US$0.0001, to Otsuka Pharmaceutical Co., Ltd ("Otsuka Pharmaceutical"), the shareholder of MP Shanghai, on August 21, 2006. These Preference Shares were allotted to Otsuka Pharmaceutical to succeed the terms and the features of the preferred shares previously issued by MP Cayman to Otsuka Pharmaceutical. The Preference Shares do not carry the right to vote and contain the following terms:

(1) Dividend rights

The holder of the Preference Shares was entitled to receive a non-cumulative preferential cash dividend, (the "Preferential Dividend"), in priority to other classes of shareholders, when a dividend was 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 were equal to or less than US$994,800, the holder of Preference Shares was entitled to a dividend equal to 50% of such distribution.

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

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital — continued

(ii) Preference Shares — continued

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

Upon voluntary conversion by the holder of Preference Shares, the 12,298,170 Preference Shares in issue (after the effect of the Share Split) 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.

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital — continued

(ii) Preference Shares — continued

(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 holder of the Preference Shares is 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 1(m) 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 were remeasured at each balance sheet date and changes in fair value were charged to profit or loss.

On September 24, 2010, the outstanding 12,298,170 Preference Shares (after the effect of the Share Split) were converted to 12,298,170 ordinary shares of the Company, pursuant to the automatic conversion feature as mentioned in note 25(c)(ii)(3). Upon the automatic conversion which took place on September 24, 2010, the estimated fair value of the 12,298,170 Preference Shares of RMB64,734,000 was reclassified from a liability to equity, of which RMB1,000 was credited to the Company's share capital account and the remaining amount of RMB64,733,000 was credited to the Company's share premium account. The fair value of each Preference Share was estimated to be the IPO price of the Company at HK$6.10 (equivalent to RMB5.26) per ordinary share. The changes in fair value of the Preference Shares immediately prior to their conversion into ordinary shares have been recorded as finance income (note 6(a)).

Dividends declared and payable to the holder of Preference Shares are charged as finance costs in profit or loss.

Notes to the Financial Statements

For the year ended December 31, 2010
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25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital — continued

(iii) Shares issued under the share option plans

Shares issued under the share option schemes, during the year are summarized as follows:

			Credited to/(transferred from)		
	No. of share options exercised	Consideration	Share capital	Share premium	Share-based compensation capital reserve
		RMB'000	RMB'000	RMB'000	RMB'000
Options exercised in:					
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)**
April 2010	**88,322**	**1,817**	**–**	**2,609**	**(792)**
May 2010	**172,271**	**2,594**	**–**	**4,508**	**(1,914)**
June 2010	**129,613**	**2,583**	**–**	**3,452**	**(869)**
For the year ended December 31, 2010	**403,379**	**7,241**	**–**	**10,923**	**(3,682)**

(Expressed in Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital — continued

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

Exercise period	Exercise price RMB (note)	2010 Number of options	2009 Number of options
2004 Modified Plan			
Executives, employees and external consultants			
Exercisable one year after the consummation of an IPO	0.60 to 1.94	**1,009,760**	1,009,760
2006 Option Plan			
Executives			
April 28, 2007 to January 24, 2017	9.81 to 21.30	**330,572**	419,664
April 2, 2008 to April 1, 2017	21.26	**—**	31,000
September 23, 2008 to September 22, 2017	23.35	**50,000**	50,000
July 25, 2009 to July 24, 2018	20.90	**200,000**	270,000
June 24, 2009 to December 31, 2018	20.98	**420,000**	420,000
October 9, 2010 to October 20, 2019	20.91	**600,000**	600,000
July 9, 2011 to July 8, 2020	20.75	**2,864,873**	—
August 9, 2011 to August 8, 2020	20.73	**500,000**	—
Employees			
April 23, 2007 to March 1, 2013	21.25	**348,863**	588,954
February 6, 2010 to February 5, 2019	29.06	**25,000**	25,000
July 8, 2011 to July 7, 2020	20.75	**123,094**	—
External consultants			
May 17, 2008 to May 16, 2017	23.51	**100,000**	100,000
Exercisable upon a successful IPO	23.35	**50,000**	50,000
		5,612,402	2,554,618
		6,622,162	3,564,378

Note: The weighted average exercise prices for options outstanding and exercisable at December 31, 2010 have been adjusted to reflect the change of exercise prices approved on March 9, 2010 (note 24(b)(iii)).

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(c) Share capital — continued

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

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 statements.

(d) Nature and purpose 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 1(s).

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(d) Nature and purpose of reserves — continued

(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 external consultants of the Group in accordance with the accounting policy adopted for share-based payments in note 1(o)(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.

The balance represented MP Shanghai's statutory general reserve balance which had reached 50% of its own paid up capital in 2007.

(e) Distributability of reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company, as at December 31, 2010 were RMB1,886,023,000 (2009: RMB397,363,000).

On March 22, 2011, the directors approved a dividend in respect of the Company's earnings for the financial year ended December 31, 2010 amounting to RMB60,652,000 (note 25(b)). This dividend has not been recognized as a liability at December 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 Group defines "capital" as including all components of equity, long-term loans and preference share capital, less unaccrued proposed dividends. On this basis, the amount of capital employed at December 31, 2010 was RMB1,914,159,000 (2009: RMB298,443,000).

25 CAPITAL, RESERVES AND DIVIDENDS — continued

(f) Capital management — continued

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders 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 risk 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, 2010, the Group has certain concentration of credit risk that 27% (2009: 22%) of the total trade and other receivables were due from the Group's largest customer and 63% (2009: 49%) of the total trade and other receivables were due from Group's top five customers respectively.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(a) Credit risk — continued

The maximum exposure to credit risk 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

	2010					
	Carrying amount RMB'000	Total contractual undiscounted cash outflow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Loans	54,132	55,153	50,696	681	1,951	1,825
Trade and other payables	95,915	95,915	95,915	–	–	–
	150,047	151,068	146,611	681	1,951	1,825

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(b) Liquidity risk — continued

(i) The Group — continued

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

(ii) The Company

	2010		
	Carrying amount RMB'000	**Total contractual undiscounted cash outflow RMB'000**	**Total RMB'000**
Other payables	**36,164**	**36,164**	**36,164**

	2009		
	Carrying amount RMB'000	Total contractual undiscounted cash outflow RMB'000	Total RMB'000
Other payables	129,653	129,653	129,653

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(b) Liquidity risk — continued

(ii) The Company — continued

The above analyses do not include the balances of Preference Shares which are stated at fair value of RMB82,262,000 at December 31, 2009. The Preference Shares were redeemable at the option of the holder since February 23, 2008 and their fair values were not stated contractual amounts but were subject to mutual agreement between the Company and the holder of the Preference Shares. All Preference Shares were converted into ordinary shares on September 24, 2010 (note 25(c)(ii)).

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks, short term and long term loans borrowed 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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(c) Interest rate risk — continued

(i) Interest rate profile

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

	2010 Effective interest rate	2010 Amount RMB'000	2009 Effective interest rate	2009 Amount RMB'000
Fixed rate instruments:				
Deposits with banks with original maturities over three months	**2.06%**	**640,000**	3.79%	191,000
Fixed rate borrowings	**4.78%**	**(50,000)**	—	—
		590,000		191,000
Variable rate instruments:				
Cash at banks and in hand	**0.36%**	**928,053**	0.67%	90,194
Pledged deposits with banks	**0.36%**	**4,273**	0.67%	2,595
Variable rate borrowings	**6.75%**	**(4,132)**	6.70%	(4,579)
		928,194		88,210
Fixed rate borrowings as a percentage of total borrowings		**92.4%**		0.0%

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(c) Interest rate risk — continued

(ii) Sensitivity analysis

At December 31, 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year and retained earnings by approximately RMB8,653,000 (2009: RMB721,000).

In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at December 31, 2010, the impact on the Group's profit for the year (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 for 2009.

(d) Currency risk

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables, payables that are denominated in a foreign currency (mainly United States dollars ("US$") and; (ii) IPO proceeds received by the Company were in Hong Kong dollars and were mostly exchanged into RMB and US$. The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Company to currency risk.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(d) Currency risk — continued

(i) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in RMB)			
	2010		2009	
	US$	**RMB**	US$	RMB
	RMB'000	**RMB'000**	RMB'000	RMB'000
Trade and other receivables	**22,430**	**—**	32,006	—
Cash and cash equivalents	**2,788**	**484,118**	816	—
Deposits with banks	**—**	**600,000**	—	—
Trade and other payables	**(720)**	**—**	(5,873)	—
Amounts due from/(to) group companies	**128**	**(878)**	15,607	—
Amounts due from related parties	**6,373**	**—**	14,701	—
Net exposure arising from recognized assets and liabilities	**30,999**	**1,083,240**	57,257	—

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(d) Currency risk — continued

(i) Exposure to currency risk — continued

The Company

	Exposure to foreign currencies (expressed in RMB)	
	2010	2009
	RMB	RMB
	RMB'000	RMB'000
Cash and cash equivalents	**484,118**	—
Deposits with banks	**600,000**	—
Amounts due to group companies	**(878)**	—
Net exposure arising from recognized assets and liabilities	**1,083,240**	—

(ii) Sensitivity analysis

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

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit for the year and retained earnings**	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained earnings
		RMB'000		RMB'000
US$ (against RMB)	**3%**	**790**	5%	2,433
	(3)%	**(790)**	(5)%	(2,433)
RMB (against US$)	**3%**	**64,994**	—	—
	(3)%	**(64,994)**	—	—

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(d) Currency risk — continued

(ii) Sensitivity analysis — continued

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 and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

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

(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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES — continued

(e) Fair values — continued

As disclosed in note 25(c)(ii) to these financial statements, the Company's Preference Shares are measured at fair value at the balance sheet date and prior to their automatic conversion. The fair value as at December 31, 2009 was determined based on Level 3 inputs which were primarily based on the business enterprise value of the Group and adjusted for preferential rights of the Preference Shares using valuation techniques in which the significant input is not based on observable market data. On September 24, 2010, each Preference Share was converted into one ordinary share of the Company. The fair value of each Preference Share immediately prior to its conversion was determined based on Level 1 input, which was the IPO price for the Company's ordinary share. The total estimated fair value of the 12,298,170 Preference Shares was RMB64,734,000 immediately prior to their conversion.

Any change in the fair value of the Preference Shares is recorded as finance costs in profit or loss. The changes in fair value up to the date immediately prior to conversion represented gain of RMB17,528,000 (2009: loss of RMB10,184,000) which was credited to profit or loss as finance income.

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

27 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at December 31, 2010 not provided for in the financial statements are as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Contracted for	**77,016**	24,271
Authorized but not contracted for	**84,889**	182,628
	161,905	206,899

The Company had no capital commitments as at December 31, 2010 and 2009.

At December 31, 2010 and 2009, the capital commitments authorized but not contracted mainly relate to the construction of a new office complex and manufacturing facilities in Shanghai, the PRC.

27 COMMITMENTS — continued

(b) Operating lease commitments

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Within one year	**1,242**	1,005
After one year but within five years	**119**	996
	1,361	2,001

The Company had no operating lease commitments as at December 31, 2010 and 2009.

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 renegotiated. None of the leases includes contingent rentals as at December 31, 2010 and 2009.

28 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

For the year ended December 31, 2010, transactions with the following parties were considered to be related parties:

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

28 RELATED PARTY TRANSACTIONS — continued

(b) Significant related party transactions

Particulars of the Group's significant related party transactions during the current year are as follows:

	2010 RMB'000	2009 RMB'000
Recurring transactions:		
Sales to JIMRO	**3,539**	3,953
Sales to Thai Otsuka	**8,104**	14,283
Sales to Otsuka Philippines	**3,858**	3,508
Sales to Otsuka Indonesia	**3,998**	5,392
Sales to Otsuka Pakistan	**5,041**	3,433
	24,540	30,569

(c) Amounts due from related parties

	The Group 2010 RMB'000	2009 RMB'000
Trade receivables from:		
Sales to JIMRO	**1,853**	1,241
Sales to Thai Otsuka	**1,870**	9,859
Sales to Otsuka Philippines	**1,143**	618
Sales to Otsuka Indonesia	**603**	2,077
Sales to Otsuka Pakistan	**904**	906
	6,373	14,701

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

28 RELATED PARTY TRANSACTIONS — continued

(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 individuals as disclosed in note 9, is as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**6,049**	4,721
Discretionary bonuses	**5,879**	4,366
Retirement scheme contributions	**55**	129
Share-based compensation	**12,801**	1,714
	24,784	10,930

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

29 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

(a) Net realizable value of inventories

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

29 ACCOUNTING ESTIMATES AND JUDGEMENTS — continued

Key sources of estimation uncertainty — continued

(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 reasseses the impairment of trade receivables at the balance sheet date.

(c) Depreciation

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

(d) Income tax

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

(Expressed in Renminbi unless otherwise indicated)

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

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective during the year ended December 31, 2010 and which are relevant to the Group's operations but have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	January 1, 2011
HKFRS 9, *Financial instruments*	January 1, 2013
Improvements to HKFRSs 2010	July 1, 2010 or January 1, 2011
Amendments to HKAS 12, *Income taxes*	January 1, 2012

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

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at December 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. Otsuka Holdings Co., Ltd. produces financial statements available for public use.

32 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in note 25(b).

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