MicroPort

MicroPort Scientific Corporation

微創醫療科學有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00853)

MICRO PORT2011

2011

ANNUAL REPORT

* *for identification purpose only*

CONTENTS

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Dr. Zhaohua Chang *(Chairman of the Board)*

Ms. Yan Zhang

Mr. Hongbin Sun

Mr. Qiyi Luo

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida

Mr. Hiroshi Shirafuji

Mr. Lei Ding *(Appointed on 26 August 2011)*

Mr. Xiaolong Liu *(Resigned on 26 August 2011)*

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. Guoen Liu *(Appointed as Chairman of the Remuneration Committee on 19 March 2012)*

Dr. Zhaohua Chang *(Resigned as Chairman of the Remuneration Committee on 19 March 2012)*

Mr. Jonathan H. Chou

NOMINATION COMMITTEE

Mr. Zezhao Hua *(Appointed as Chairman of the Nomination Committee on 19 March 2012)*

Mr. Lei Ding *(Appointed on 26 August 2011 and resigned as Chairman of the Nomination Committee on 19 March 2012)*

Dr. Guoen Liu

Mr. Xiaolong Liu *(Resigned on 26 August 2011)*

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, *Certified Public Accountants*

COMPLIANCE ADVISOR

TC Capital Asia Limited

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

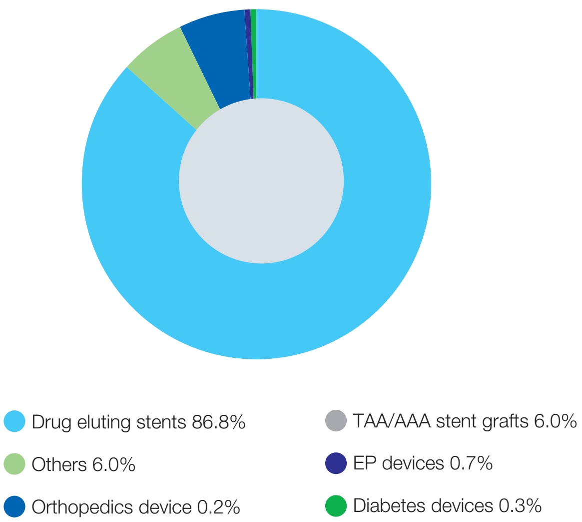
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

FINANCIAL SUMMARY

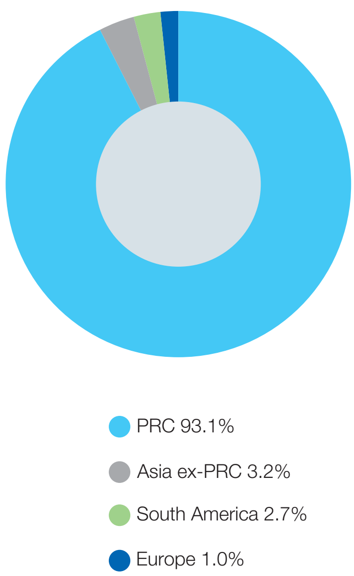
	Financial year ended 2011 RMB'000	2010 RMB'000	Change %
Turnover	**839,849**	727,718	15.4
Gross Profit	**702,581**	629,513	11.6
Profit for the year	**320,855**	240,101	33.6
Earnings per share –			
Basic (RMB)	**0.22**	0.20	10.0
Diluted (RMB)	**0.22**	0.20	10.0

Revenue Analysis in 2011

By Product



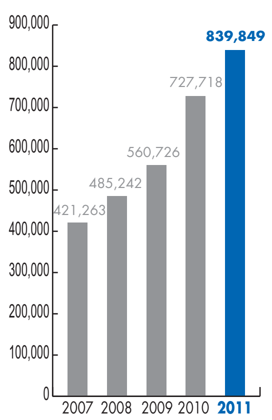
By Geographical region



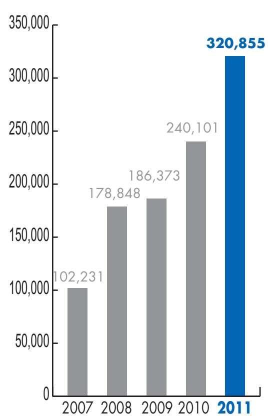
FIVE YEARS FINANCIAL SUMMARY

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Assets					
Non-current assets	**569,132**	306,782	227,557	188,534	125,447
Current assets	**1,775,067**	1,866,860	484,301	437,500	498,018
Total assets	**2,344,199**	2,173,642	711,858	626,034	623,465
Liabilities					
Current liabilities	**153,933**	163,446	261,411	174,135	250,136
Non-current liabilities	**75,111**	39,517	62,754	44,296	12,390
Total liabilities	**229,044**	202,963	324,165	218,431	262,526
Total equity	**2,115,155**	1,970,679	387,693	407,603	360,939

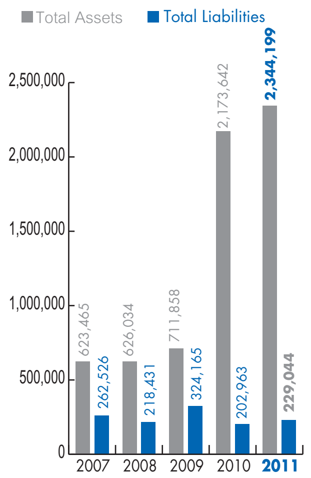
Turnover



Profit



Total Assets/Total Liabilities



OUR COMPANY AND OUR MISSION

OUR COMPANY

MicroPort Scientific Corporation ("MicroPort") is making the world a better place one patient at a time. In fact, for every 90 seconds, one patient in this world was saved, or had his or her quality of life improved through medical intervention, using MicroPort products.

We are all about improving human life through the practical application of innovative science. Our aim is to continually develop leading technologies and products for physicians, with life-saving solutions and treatments for the patients.

Being a young, dynamic and energetic company, our ambition is to establish MicroPort as a globally recognised medical brand. Yet as our business grows, we strive to retain our unique entrepreneurial spirit. We will continue to demonstrate our entrepreneurial achievement and innovation coupled with our commitment to improving the social well-being.

OUR MISSION

"To improve longevity and quality of life through constant innovation and commercialization of the best and most affordable therapeutic solutions."

CHAIRMAN'S STATEMENT

Dr. Zhaohua Chang

The MicroPort brand primarily belongs to physicians and patients, as well as representing the embodiment of a company that belongs to our community and employees. Our unique brand carries the hopes and dreams of millions of patients, our employees, thousands of small shareholders, and a diversity of other stakeholders. Today, our brand occupies the same markets as global competitors and our products exhibiting the same high quality. MicroPort has been remarkably successful in establishing our reputation over the past decade, launching "Firebird", "Firebird 2", "Hercules", "Apollo", "Aegis" and other respectable products. Our ambition is to build on our strengths to establish MicroPort as a unique brand recognized globally for delivering innovative medical device and solutions to serve physicians and patients.

TRANSFORMATION AND DIVERSIFICATION

We believe that we can achieve our ambition by establishing a global awareness of our MicroPort brand, while focusing on product innovation, adapting to business environment and changing how we work together to achieve our vision.

As a company we are constantly changing in response to the competitive industry we inhabit. For our business innovation is a fact of life, and it is vital for MicroPort to diversify its product portfolio to maintain a competitive advantage, as we continue to grow and develop our business.

Since inception, MicroPort has undergone a continual transformation process. We have applied our successful business model for cardiovascular medical devices as a template to achieve our diversification strategy. Based on a clear and defined new direction, with the support of our research and development, we have announced our intention to further diversify our product offerings in 2012.

MicroPort is establishing a global brand and a new generation of world-class Chinese medical device company, which demonstrates sustainable growth and international competitiveness.

CHINA AS THE KEY GROWTH DRIVER FOR EXPANSION IN OVERSEAS

Our foundations for future growth are built on the strength of our domestic markets, and MicroPort is committed to continue significant investment and effort to accelerate expansion of our domestic market share. We are committed to maintain and strengthen our leading position in serving physicians and patients in China, as the foundation for developing our strategy for global market penetration. MicroPort will also continue to recognise its responsibilities to all our stakeholders and will continue to build and strengthen our relationships with local communities even as we strive to build a truly global corporation.

China is quickly becoming the powerhouse of the global economy. We expect the size of medical device market in China to exceed both the European Union and Japan, and will only rank behind the United States in the near future. MicroPort is well positioned to maximize the opportunities these China economic developments present. By consolidating our local market position and building on solid foundations, we will venture stronger into global markets.

Chairman's Statement

TEAMS OF TALENT FOR OUR FUTURE

The success of MicroPort rest on the talent we nurture. We are determined to achieve excellence in all our endeavors, and it is our talents that will make it happen. MicroPort is providing a platform for people to achieve their aspirations, and excellence at MicroPort is reflected throughout the whole organization and within the activities of all our people. The reputation of MicroPort is about our talented people. Investing in our people is investing in our future. Our goal is to inspire people and build the culture and environment in which our talent can grow and succeed.

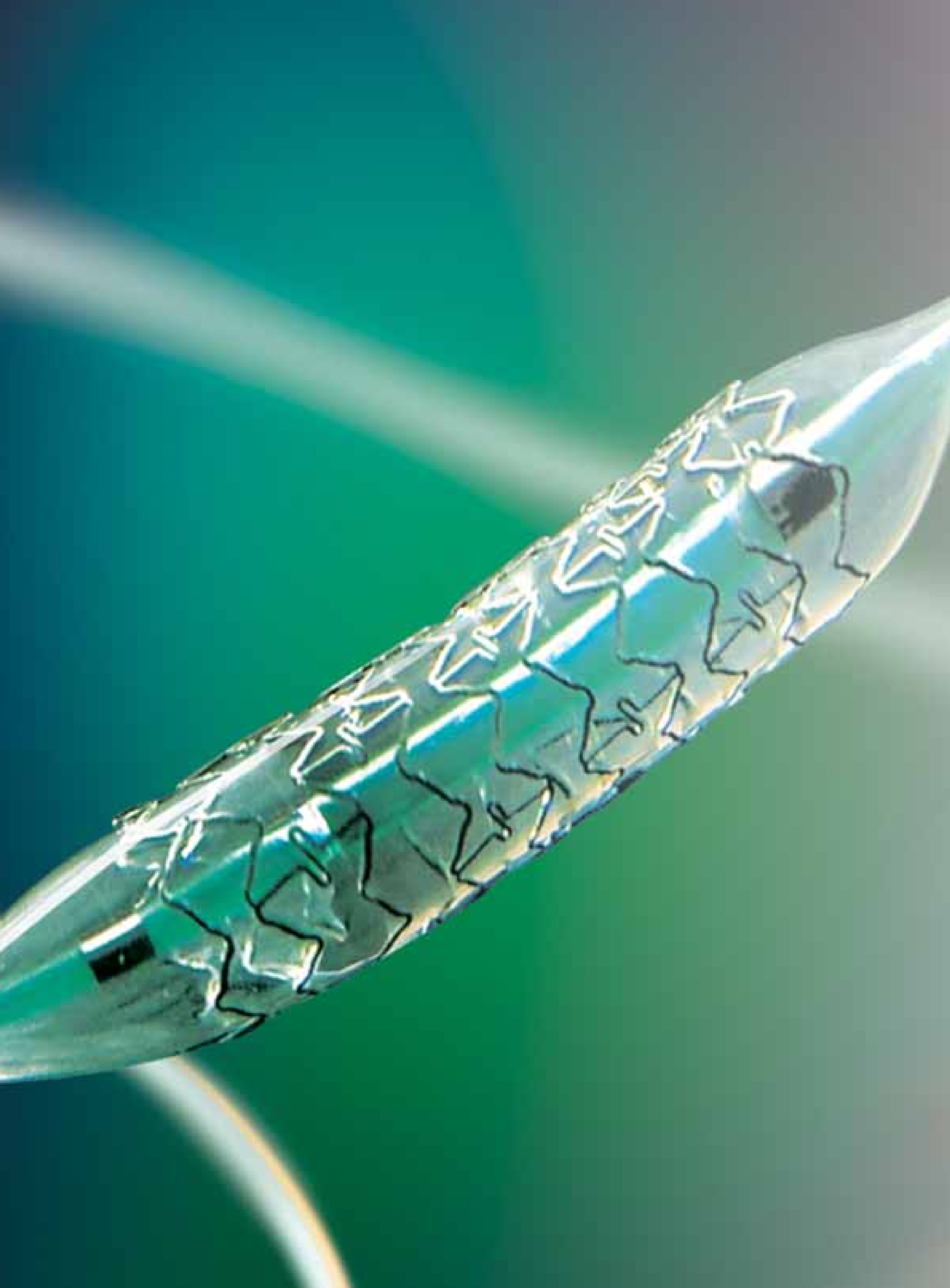
TOWARDS A BRIGHT FUTURE

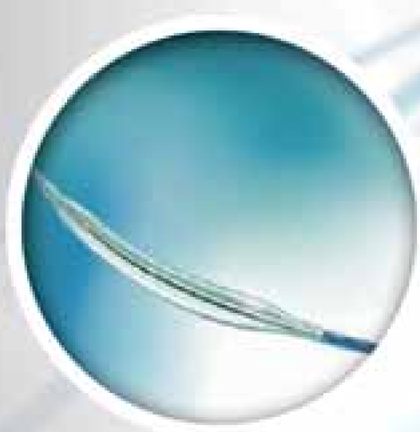
Looking ahead, the economic conditions for 2012 remain challenging. The global economic outlook is characterized by unpredictability and uncertainty, against a backdrop of international economic downturns, difficulties and negative sentiment. However, MicroPort is committed to our overall strategy, and view the current economic situation as offering many new and exciting opportunities to realize our ambition of building global brand awareness and aggressively penetrating global markets.

At MicroPort, we are determined to achieve what is right for the long-term success of our brand and our business. We strive to provide an environment for everyone to learn, grow and succeed, and positively encourage innovations and creativities. MicroPort is committed to continuous improvement across the business, whether products or services to our customers. In manufacturing, distribution or sales, we seek to achieve operational excellence. All our employees share our enthusiasm for a bright MicroPort future and look forward to reporting in our continued progress next year.

Dr. Zhaohua Chang
Chairman

Shanghai, 19 March 2012





WHERE PHYSICIAN AND PATIENT ALWAYS COME FIRST

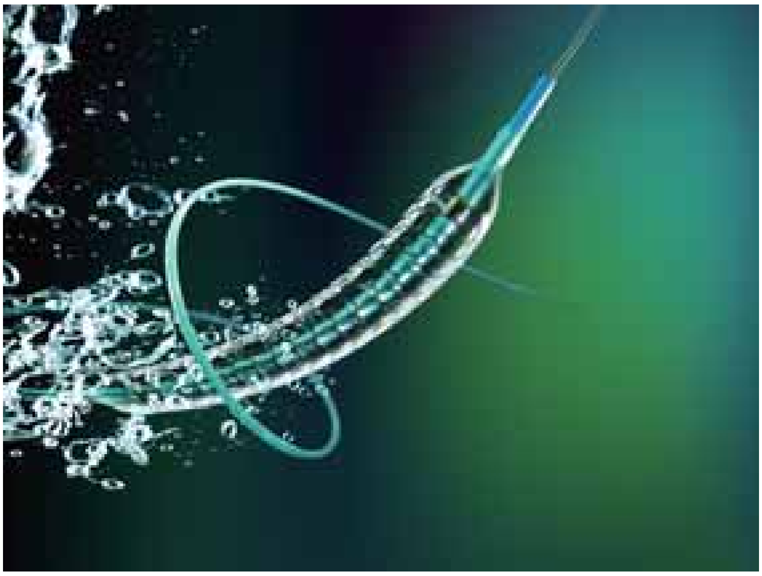
MANAGEMENT DISCUSSION AND ANALYSIS

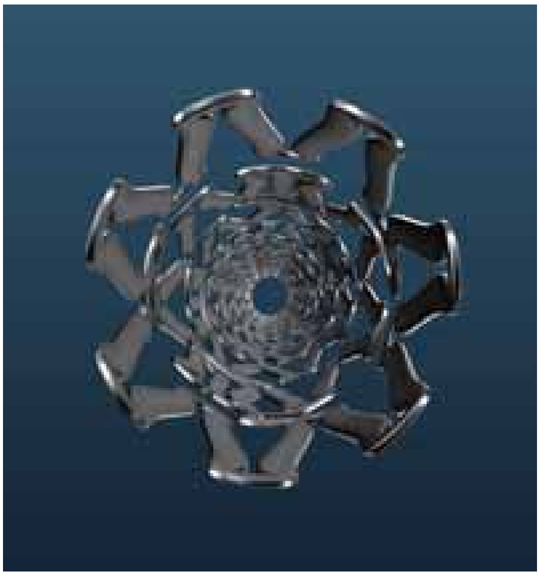
BUSINESS OVERVIEW

OVERVIEW

We are a leading medical technology company that develops, manufactures and sells high-end medical devices in The People's Republic of China (the "PRC"). Our products include those used for vascular diseases and disorders, such as cardiovascular, neurovascular, aortic and peripheral vascular, as well as devices for cardiology, electrophysiology ("EP"), orthopedics and diabetes. These products are sold and marketed to over 1,000 hospitals throughout the PRC and in approximately 17 countries in Asia Pacific region (excluding the PRC), South America and Europe.

PRODUCTS





Our products offered for sale can be categorized into six business segments, namely, cardiovascular, aortic and peripheral vascular devices, neurovascular, EP, orthopedic and diabetes devices. For the year ended 31 December 2011, we derived 90.7% of our net sales from our cardiovascular device, 6.0% from aortic and peripheral vascular devices, 2.1% from our neurovascular device, 0.7% from our EP device, 0.2% from our orthopedic device, and 0.3% from our diabetes device.

Management Discussion and Analysis

CARDIOVASCULAR DEVICES

Our high quality product offering, with our Firebird 2 coronary stent as the main product, has enabled us to be in the leading position of cardiovascular device market in the PRC. The Firebird 2, our second-generation coronary stent, remained as the top selling product of the Group in 2011. We make an effort continuously to further assess the safety and effectiveness of our products, and to provide more information and scientific basis for long-term application. In July 2011, a prospective, multi-center randomized controlled clinical trial of Firebird 2 has been launched for assessing the safety and effectiveness of the stents more precisely. Subsequently in the same month, MicroPort completed the enrollment of 1,000 patients in its FIRE2 – DIABETES which involved over 40 research centers all over the world. This finding will also provide the efficacy and safety of the products in treatment of complex coronary lesions in diabetes. From an international market perspective, Firebird 2 has further gained approvals in Peru and Venezuela.

Firehawk, our third generation bio-absorbable polymer sirolimus-eluting coronary stent, represents our latest product offering of our drug-eluting stent family. It is on track for the three phases clinical studies, which are the pre-marketing clinical investigation study, namely the First-In-Man ("FIM"), the TARGET I and the TARGET II. To date, all patient enrollments for the pre-marketing clinical study have been achieved. The early studies have proven that Firehawk is safe and effective in treating coronary artery disease patients. Currently, it is undergoing clinical follow-up and data-processing stage. The Firehawk's pre-marketing clinical investigation, which involved a total of 1,261 patients, is the largest clinical study on drug eluting coronary stent systems that has ever been conducted in the PRC.

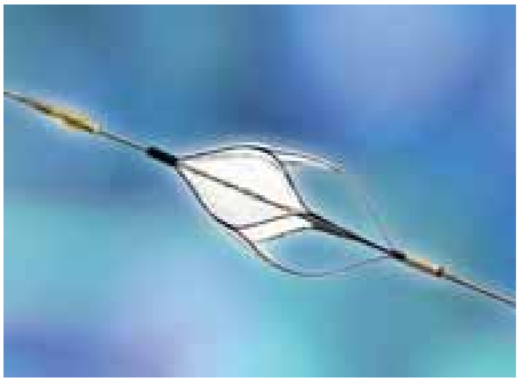
Apart from the coronary stent products, we also market percutaneous transluminal coronary angioplasty ("PTCA") accessory. We have been developing and manufacturing a broad line of products for coronary revascularization and have offered 10 out of the 16 commonly-used PTCA accessories. Currently, we have set up an independent department for strategic planning, R&D, registration, production and marketing of the PTCA accessories.

Looking ahead, we expect our PTCA accessories business will provide positive contribution to the Group. Having synergistic effect with our drug-eluting coronary stents, our PTCA accessories business enables us to secure and maintain the leading position in the cardiovascular device market by providing a comprehensive portfolio of coronary stents and PTCA equipment.

Management Discussion and Analysis

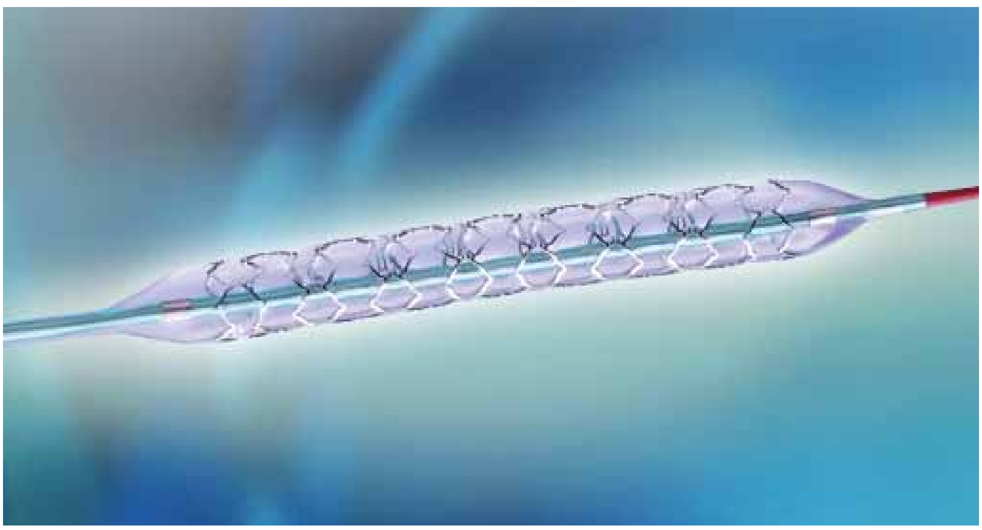
AORTIC AND PERIPHERAL VASCULAR DEVICES

Our aortic and peripheral vascular devices increased approximately 8% when compared to the prior fiscal year. In the first half of 2011, we have been granted registration of two of our products, namely Hercules Thoracic Stent-Graft System and Hercules Bifurcated Stent-Graft system in Philippines. Furthermore, the Hercules Thoracic Stent-Graft System has also been granted for registration in Thailand in July 2011.



In order to increase the acceptance and reputation of the Hercules products in the Asia-Pacific region that we have formally entered, we have organized two live surgery demonstrations of Hercules in Philippines in September 2011. The post-operative angiography results showed that the aneurism was successfully isolated, which also symbolized the success of the surgery.

NEUROVASCULAR DEVICES

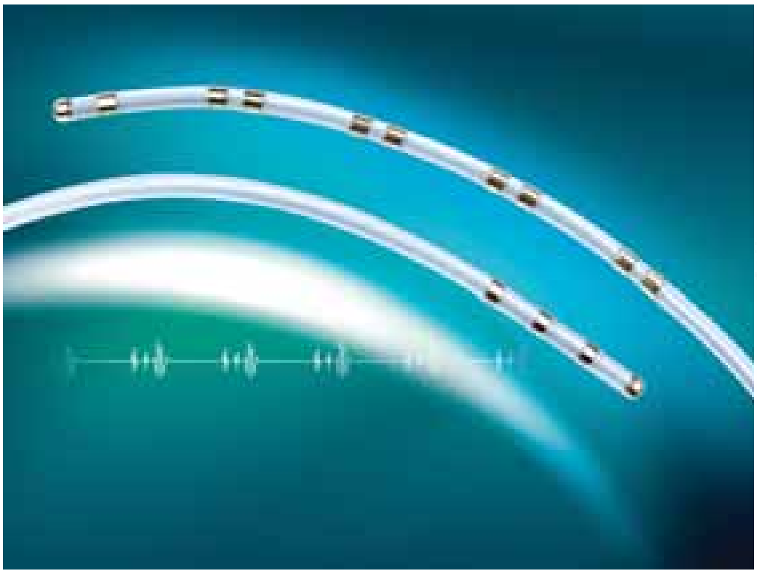


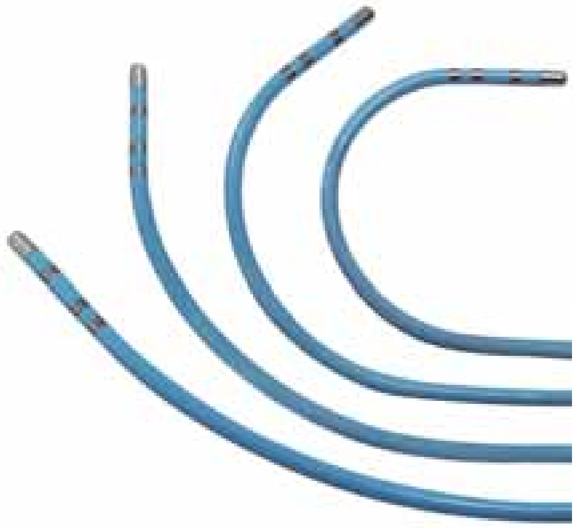
Apollo, our intracranial stent, holds great promise to effectively treat brain strokes since its launching in 2005. The sales growth of Apollo for the financial year 2011 shows promising results, with 31% increments when compared to the year 2010. Furthermore, we have maintained its sales growth rate over 25% for the past four consecutive years.

Our intracranial stent for treating intracranial aneurysms, the Willis, is undergoing approval by the PRC's State Food and Drug Administration (the "SFDA") and is expected to be launched in 2012. Another device, the Tubridge, an intracranial vascular reconstruction device, has finished the pre-clinical study with positive results. Accordingly, a family of the neurovascular devices can be marketed, which diversifies our product portfolio.

Management Discussion and Analysis

EP DEVICES





Our EP devices segment showed prominent growth with 269% increments when compared to the financial year ended 31 December 2010. Our efforts in R&D and the remarkable performance in clinical studies of our EP devices have led us to successful development of our EP devices segment. The successful first-in-man clinical studies of the Columbus 3D electrophysiological mapping system and the Voyager irrigated RF ablation catheter, provided an excellent foundation for further upcoming large scale multi-center clinical trial, and marked the milestone for entering into the high potential growth AF ablation device market. The cardiac RF ablation catheter FireMagic and the fixed curve diagnostic catheter EasyFinder have also shown significant growth in revenue.

During 2011, we have obtained three patents in this area, namely “System and method for quickly constructing 3D geometric model of lumen in human organ” (invention patent), “A Carrying Device for the Magnetic Field Generator” (invention patent) and “The Shell of 3D Cardiac EP Mapping System” (designing patent). The EasyLoop, the circumferential pulmonary vein catheter, is undergoing approval by the SFDA and expected to be granted as well. We are expanding our footprint in the EP devices market by introducing our innovative products as well as development of a full series of EP devices.

Management Discussion and Analysis

ORTHOPEDIC DEVICES

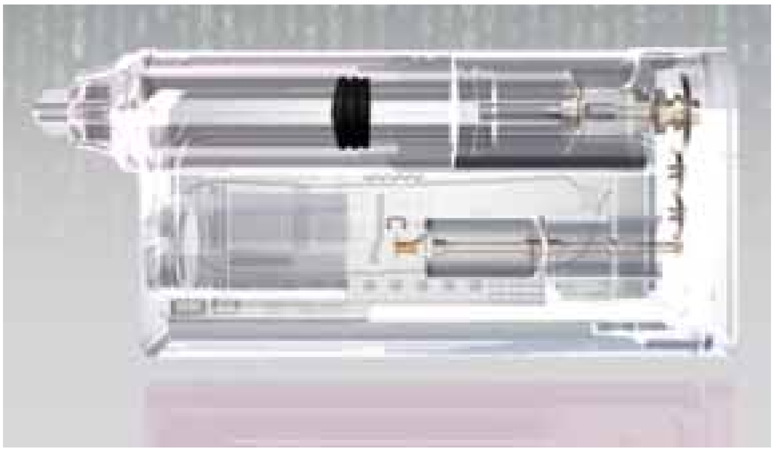
Our orthopedic devices segment is growing rapidly to become one of our core businesses for the financial year ended 31 December 2011. Our new products, including Spine Posterior Fixation System, Anterior Cervical Plate System, Cervical Fusion Device, and Thoracic & Lumbar Fusion Device, have gained the CE approval and this is the first time for our orthopedic products have obtained such approval. As a part of our priority growth initiatives, we have also invested in the development of our orthopedic solutions through acquisition.

On 29 November 2011, we announced the completion of the acquisition of Suzhou Best, a domestic manufacturer and marketer of orthopedic implants and related medical instruments. Suzhou Best offers a full product line of trauma and spine stabilizer systems with SFDA approval. This acquisition adds substantial scale to the Company's existing orthopedic business and furthers its objective of diversification by expanding into other medical device markets, thus offering significant growth opportunities. In addition, Suzhou Best has a developed distribution network and relationship in the PRC orthopedic industry, which could create synergies by leveraging on our Group's existing technology in orthopedics and sales team. This increases the Company's overall market share and provides an established platform for the future growth of our orthopedic devices in the PRC.

In July 2011, we have signed an agreement with a key international distributor, who will help supply our spinal implants to the international market. This is a milestone achievement for our orthopedics segment. This agreement covers 18-months of purchasing orders valued at US Dollars ("US$") 3.5 million and we have started delivering the products since January 2012.

Management Discussion and Analysis

DIABETES DEVICES



For the year 2011, our diabetes devices division was restructured to improve its services to the patients. Hence, sales were down compared to previous historical years. We have, however, maintained our technological edge in this field by being the first Chinese-invented micro pulse infusion system used for the treatment of idiopathic hypogonadotropic hypogonadism, which has been proven and its efficiency were being validated throughout the clinical studies in October 2011.

In late 2011, we have successfully finished the registration of "Reservoir of Insulin Pump" and "Infusion Set of Insulin Pump" which were approved by the SFDA. We will continue to develop and manufacture more product lines in order to diversify our diabetes portfolio.

After the award of "2010 China (Asia-Pacific) Best Service Call-Center", our Customer Care Division won the second customer service award, namely the Outstanding Customer Service Award, at the China Best Call Center and BPO (Business Process Outsourcing) Summit 2011 in September 2011. Although the sales of our diabetes devices 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 lead to sales increase of our products.

MANUFACTURING

In 2011 we have implemented the lean manufacturing practice in most of our manufacturing processes after its initiation in 2010. This concept of "Outstanding production management system brings quality of the products" helps drive the sustainability in the supply chain.

The yielding rate of production is steadily increasing. Understanding production site management is a critical aspect of good manufacturing practice, and we have further strengthened our management in this aspect.

As a result of our continued cost management, the cost of our major product, "Firebird 2", has been significantly reduced. This is due to the improvement in manufacturing process and in-house extrusion of tubing supply. The inventory turnover days have been reduced by 12.8% through the improvement in our production management and optimizing the production process.

The implementation of Manufacturing Execution System ("MES") improves the automation of our production management. This electronic processing system has been implemented throughout the production process, which helps to improve the management efficiency, production process traceability, production data analysis, as well as the quality risk control.

Management Discussion and Analysis

SALES, MARKETING AND DISTRIBUTION NETWORK

Our portfolio of business is getting stronger and balanced. For our coronary stent market, we have marketed to 976 hospitals with approximately 8.8% increase when compared to the year 2010. We have strengthened our small to medium-sized customer base and also developed new markets. The number of the distributors we have has also increased as well.

For our peripheral vascular device market, our sales increased more than 12.6% for the year, including the intracranial stents and other stents. By utilizing our sales and marketing team, we actively organized trainings to the doctors. This in turn contributed to more hospitals in medium and smaller cities in the PRC becoming better equipped and staffed. Furthermore, we have built an academic platform through different media channels and set up an international training center for minimally invasive stents. We have also participated in different national and international academic forums in order to increase our reputation in different parts of the PRC.

For our EP device segment, our portfolio is getting more comprehensive and the sales of FireMagic increased to 331%. The implantation rate increased to 520% when compared to the year ended 2010. We have attended different national and international academic forums, organized trainings for doctors and undergone large-scale clinical studies in order to promote our brand of EP devices.

COMPETITION

As the PRC government has mandated that medical products be acquired using a centralized tender process, the medical industry is going through a shake up. The resulting impact is lower quality and less efficient manufacturers can no longer compete with better funded and managed companies. MicroPort welcomes these changes although it will put downward pressure initially on our profit margins. However, as we are investing in this business for the long run, we expect weaker competitors to be weeded out as we continually improve and upgrade our products to match those produced by international medical companies. With high quality and prices lower than our international counterparts, we are confident that we will prevail if competition heats up.

The environment in which we operate is continuously evolving. As the domestic market leader among the PRC companies manufacturing vascular stents, we anticipate future competition both domestically and internationally. Nevertheless, we are confident of maintaining our market position owing to the high entry barrier and technological advancement that the Group has made.

RESEARCH AND DEVELOPMENT (“R&D”)

We finished 2011 in a strong position to deliver innovation through our internal R&D. 12 new patents were produced in 2011, our key product launches are on track, and our existing products contributed to the Company’s pipeline progress, which indicate the vitality of our R&D streams.

Management Discussion and Analysis

With our highly skilled teams of R&D of more than 180 scientists and engineers as at 31 December 2011, we are broadening our product offerings in each of the six product categories and exploring new technologies with possible applications in multiple areas. We expect that our R&D team will continue our exceptional track record of growth as we secure the leading position in the medical technology industry in the PRC as well as entering into the international market.

CERTIFICATION

The continued acceptance of our products in overseas markets is proved by the successful registrations. As of 31 December 2011, we received a total of 75 patents in the PRC, including inventions, utility models and designs, from the State Intellectual Property Office (the "SIPC") of the PRC, and 2 patents in the European Union. In addition, we had 49 patent applications pending in the PRC and 23 patent applications pending Patent Cooperation Treaty ("PCT") and 25 patent applications pending in other countries. As of 31 December 2011, we had 131 patent applications pending in the PRC, 54 PCT patent applications and 42 patent applications pending in other countries.

The Hercules Thoracic Stent-Graft System was registered by the Bureau of Food and Drugs of Philippines and Thai Food and Drug Administration in January and July 2011, respectively. In April 2011, the Hercules Bifurcated Stent-Graft System was also registered in Philippines.

We have made significant achievement in entering South American market during the financial year 2011. In August, the Firebird 2 obtained the approval in Peru. In November, six products have been successfully registered in Venezuela, of which the Hercules Bifurcated Stent-Graft System and Firebird 2 are ready to be launched. Four other products, the PTCA Balloon Catheter, Firebird, Hercules, and Cronus Stent Graft in Surgical Operation were also re-registered successfully. In June 2011, another product, the Aether Distal Protective Device, was also registered in Brazil.

In December, our orthopedics products obtained the CE certifications issued by TUV SUD for two orthopedic products namely Reindeer, our locking compression plate system (including metallic medical bone screws) and Mountever, the Posterior Cervical Fixation System, which augmented our orthopedic devices portfolio for international market. Furthermore, the Shanghai Food and Drug Administration (the "SHFDA") has issued the Class III Medical Device License for MicroPort Orthopedics.

BRANDING

In 2010, our "MicroPort" trademark has been registered successfully in USA and Hong Kong. By further expanding our brand, we made good achievements in international trademark registration in 2011, with the application of "Mustang", "Jive", "Firebird" and "Firebird 2" trademark registration. The registration of the third generation drug eluting coronary stent (the "Firehawk") has also been filed in USA, Australia as well as Europe.

As at 31 December 2011, we have registered 31 trademarks in the PRC, and were recognized as one of the "Shanghai Best Known Trademark" in two successive years, and were elected as one of the Top 10 China Intellectual Property Brand Names of the Year 2010 in medical device industry.

Management Discussion and Analysis

FINANCIAL OVERVIEW

OVERVIEW

The Company is very pleased with the achievements we made in the financial year ended 2011. As we further strengthen the core of our company, we will continue to look for opportunities to expand our portfolio in a prudent manner.

REVENUE

Our revenue amounted to RMB839.8 million for the year ended 31 December 2011, with an increase of approximately 15.4%, from RMB727.7 million for the year ended 31 December 2010. MicroPort is among the domestic leading suppliers of drug-eluting stents and this product accounted for most of the increase in revenue.

REVENUE FROM VASCULAR STENTS

– **DRUG-ELUTING STENTS**

Drug-eluting stents sales amounted to RMB729.3 million for the year ended 31 December 2011, which was 16.2% higher than the year ended 31 December 2010. This moderate revenue growth rate was a result of a slowdown in the stent market in the PRC and the increasing market competition, partly attributable to the government centralized procurement program. Nevertheless, we are maintaining our market leading position in the PRC.

– **TAA/AAA STENT GRAFTS**

TAA/AAA stent grafts sales reported a revenue of RMB50.3 million for the year ended 31 December 2011, which was 8.2% higher than in 2010. While sales growth of TAA/AAA stent grafts did not perform as well compared to last year, we are pleased to maintain our market share under increasing domestic competition. Even multi-nationals medical companies were forced to cut their prices to compete with us in this market, signifying that our product quality are on par with them.

– **OTHER STENTS**

Revenue generated from the sales of other stents increased by 9.5% from RMB46.0 million for the year ended 31 December 2010 to RMB50.4 million for the year ended 31 December 2011. Our 9.5% comparable revenues increase was driven by a strong 31.0% increase from the intracranial stents, but hampered by declining sales of bare-metal stents.

Management Discussion and Analysis

REVENUE FROM EP DEVICES

Revenue from our EP devices amounted to RMB5.5 million for the year ended 31 December 2011, which was approximately 269.0% increase from 2010 on a comparable basis. While there is still significant room for growth for our EP devices, we are very pleased with the financial performance of our EP devices. This result is an indication of the increased acceptance of our EP devices by the market. It also reflects the efforts that our sales and marketing team has put into these products thus getting them off the ground.

REVENUES FROM ORTHOPEDIC DEVICES

Sales derived from our orthopedic devices for the year ended 31 December 2011 accounted for RMB1.5 million only, compared to none in the previous year. With the completion of the acquisition of Suzhou Best, orthopedic devices marketing efforts by ourselves, and the opportunity to market our devices into Suzhou Best's networks, we expect revenue from this division to form a major part of our revenue in the coming years.

REVENUE FROM DIABETIC DEVICES

Our diabetic business was undergoing restructuring in order to optimize our product offering in this market as well organizational effectiveness in 2011. As a result, the revenue generated from the sales of diabetic devices decreased by 52.4% from RMB5.9 million for the year ended 31 December 2010 to RMB2.8 million for the year ended 31 December 2011.

COST OF SALES

Cost of sales increased by 39.8 % from RMB98.2 million for the year ended 31 December 2010 to RMB137.3 million for the year ended 31 December 2011. The increase was primarily due to the increase in line with sales and the provision of obsolete stocks.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit increased by 11.6 % from RMB629.5 million for the year ended 31 December 2010 to RMB702.6 million for the year ended 31 December 2011, and gross profit margin decreased from 86.5% for the year ended 31 December 2010 to 83.7% for the year ended 31 December 2011.

OTHER REVENUE AND OTHER NET INCOME

We had other revenue and other net income of RMB53.2 million and RMB40.7 million, respectively, for the year ended 31 December 2011. Compared to 31 December 2010, other revenue and other net loss was RMB22.9 million and RMB30.5 million, respectively. The increase of other revenue was driven by the interest income on the bank deposits while the increase of other net income was primarily attributable to the foreign exchange gain on deposits placed in to form of RMB.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by 29.9% from RMB117.9 million for the year ended 31 December 2010 to RMB153.0 million for the year ended 31 December 2011. The increase was primarily due to (i) the increase in headcount, (ii) the increase in salaries, bonuses and related expenses, including amortization of options granted for personnel engaged in research and development, and (iii) the increased efforts in undergoing clinical studies and trials.

SALES AND MARKETING/DISTRIBUTION COSTS

Sales and marketing costs increased by 17.9 % from RMB129.0 million for the year ended 31 December 2010 to RMB152.1 million for the year ended 31 December 2011. The increase was primarily due to (i) an increase of salaries, bonuses and other expenses, including amortization of options granted for personnel engaged in sales and marketing and (ii) an increase of marketing expenses as a result of increased attendance at conference and seminars for our products promotion.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 40.5 % from RMB69.7 million for the year ended 31 December 2010 to RMB97.9 million for the year ended 31 December 2011. The increase was primarily attributable to (i) the increases in salaries, bonuses and related expenses for administrative personnel, as well as the expenses related to amortization of options granted and (ii) the additional local tax incurred due to the taxation reform.

FINANCE COSTS

Finance costs increased from net finance income of approximately RMB8.6 million for the year ended 31 December 2010, to net finance cost of approximately RMB1.4 million for the year ended 31 December 2011. The net finance income in 2010 was mainly attributable to 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.

PROFIT BEFORE TAXATION

Profit before taxation increased from RMB295.2 million for the year ended 31 December 2010 to RMB374.1 million for the year ended 31 December 2011. The increase was primarily attributable to (i) the increase in total revenue and stringent cost control and (ii) the increase in other revenue and other net income.

INCOME TAX

Income tax decreased from RMB55.1 million for the year ended 31 December 2010 to RMB53.2 million for the year ended 31 December 2011. The decrease of our effective tax rate from 18.7 % for the year ended 31 December 2010 to 14.2 % for the year ended 31 December 2011 was attributable to the increase in tax-free other revenue and other net income.

PROFIT FOR THE YEAR AND NET PROFIT MARGIN

As a result of the foregoing factors, profit for the year increased by 33.6 % from RMB240.1 million for the year ended 31 December 2010 to RMB320.9 million for the year ended 31 December 2011. The net profit margin increased from 33.0 % for the year ended 31 December 2010 to 38.2 % for the year ended 31 December 2011.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2011, the Group had cash and cash equivalent of RMB1,095.2 million (31 December 2010: RMB928.1 million). The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

Total borrowing of the Group as at 31 December 2011 was RMB5.7 million, as compared to RMB54.1 million as of 31 December 2010. As at 31 December 2011, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 0.0027, as compared to 0.027 as 31 December 2010.

WORKING CAPITAL

Our working capital as of 31 December 2011 was RMB1,621.1 million, as compared to RMB1,703.4 million as 31 December 2010.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from the sales and purchases which give rises to receivables and payables that are denominated in a foreign currency (mainly 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 gain of RMB40.8 million, as compared to the net exchange loss of approximately RMB30.5 million as at 31 December 2010. The Group does not employ any financial instruments for hedging purposes.

CAPITAL EXPENDITURE

During the year, the Group's total capital expenditure amounted to approximately RMB155.3 million, which was used in acquiring equipment and machinery.

ACQUISITION

On 29 November 2011, the Company acquired 100% equity interest in Suzhou Best, a domestic manufacturer and marketer of orthopedic implants and related medical instruments. Total consideration for the acquisition was RMB110 million.

Management Discussion and Analysis

CHARGE ON ASSETS

As at 31 December 2011, the Group had pledged its building held for own use with a net book value of RMB26.4 million for the purpose of securing a long term loan with a carrying value of RMB3.7 million. The Group had pledged another building for own use with a net book value of RMB9.9 million for the purpose of securing a short loan with a carrying value of RMB2.0 million.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

HUMAN RESOURCES

As at 31 December 2011, the Group employed 1,323 employees, as compared to 1,204 employees as at 31 December 2010. The Group offered competitive salary package, as well as discretionary bonuses and contribution 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

The medical market in the PRC continues to evolve under the forces of regulation, cost pressure and patient demand. At MicroPort, we intend to lead that evolution. R&D is always the top priority and a series of products are in the pipeline, which are actively developed and tested through clinical and studies, or are in the process of being validated by various government or licensing approvals:

1. FURTHER DEVELOPING AND IMPROVING OUR EXISTING PRODUCTS

As well as being the market leader in the drug-eluting stents, we are further developing and improving our existing products. We have extensive R&D activities aimed at developing our new generation of existing products. For example, we continue to experience further development of Firehawk supported by positive results from the pre-marketing clinical investigation.

2. DIVERSIFICATION OF OUR EXISTING AND NEW PRODUCTS

Apart from our cardiovascular range of products, we continuously introduce innovative new products to diversify our existing products and services. The release of the EP devices, and the successful clinical studies and patents awarded from our orthopedic and diabetes devices supports MicroPort in expanding the portfolio of medical products. Understanding that our largest market, drug-eluting stents, provides a relatively stable and significant revenue base, we would like to leverage on this base to expand into other segments of medical devices. As a result, we are aiming at diversifying our products portfolio to increase revenue growth and widen our revenue sources.

3. STRATEGIC ACQUISITIONS

We intend to continue to look for additional strategic acquisitions of the businesses or technologies, which are complementary to our existing businesses. For example, our acquisition of Suzhou Best allows us to quickly tap into the orthopedic industry with a larger product offering and a wider sales network. With MicroPort expanding into other and more variety of medical devices, we will become less dependent on revenue streams from our stents and evolve into a high tech medical device conglomerate.

We are committed to continuous improvement across our enterprise, from product innovation to operational excellence in manufacturing, distribution and sales. Aside from the above mentioned strategies, we never cease expanding our global presence and introducing new products into those markets. While crisis are looming over in Europe and other parts of the world, we believe we can easily overcome them with a committed team and hence a bright future ahead.

CORPORATE SOCIAL RESPONSIBILITY

Our commitment to take responsibility and strive to create social harmony are central elements of our culture and we see our company as part of the community – We take responsibility for all our activities whether they relate to employees or products, the community or the environment. In everything our company do we strive to do the right things for the right reasons. Our commitment is exemplified by a variety of community focused programs that we organize or support in the PRC.

We care and participate in the welfare of different levels of the society through community services. We take this opportunity to share with you our social activities.

Charity foundation: –

We partner with Shanghai Charity Foundation to provide the M.I.M. Charity Project, which makes available our medical devices to those in need. We have also established several charitable foundations which help to improve the health and educational opportunities for disadvantaged sections of our community.

Cultivating the future: –

We have built a MicroPort Hope Primary School in the impoverished area of the PRC in 2010. In December 2011, we have launched another campaign for building another MicroPort Hope Primary School. Understanding that the next generation is the pillar of future community, we have set up a scholarship fund for Zhangjiang Institute of Innovation. Furthermore, we have established the MicroPort Aspiration & Encouragement Scholarship Fund for the College of Medical Instrument at the University of Shanghai for Science and Technology and set up the Bio-medical Engineering doctoral fellowships for the College of Medical Devices and Food Science of Shanghai Polytechnic University.

Through these and many other programs, our philanthropic funding commitments is supporting ongoing health care, educational and cultural programs in our community.

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 14 July 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. 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 and President of our Company. Ms. Zhang has served as a Director since 22 July 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. Ms. Zhang received the executive master's degree in business administration from China Europe International Business School ("CEIBS") in 2011.

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 22 July 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 22 July 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 1 November 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 1 November 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. Lei Ding (丁磊), born in 1963, is a non-executive director of MicroPort Medical (Shanghai) Co., Ltd., Leader City Limited and MicroPort Medical Limited. He is currently appointed as the secretary of the party committee and general manager of Shanghai Zhangjiang (Group) Co., Ltd. (which indirectly holds the shareholding interests of Shanghai ZJ Hi-Tech Investment Corporation, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company as well as the deputy secretary of the party committee and executive deputy director of the management committee of Shanghai Zhangjiang Hi-Tech Park. Mr. Ding is also the chairman of the board of directors of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd., a company listed on the Shanghai Stock Exchange. He is a senior engineer. He received his bachelor's degree of science and master's degree of science from Fudan University in 1985 and 1988 respectively and his master's degree in business administration from CEIBS in 2005.

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 9 March 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 3 September 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 3 September 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 fi eld 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 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 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 14 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 financial year ended 31 December 2011 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 54 to 144.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2011, purchases from the Group's largest supplier and the three largest suppliers in aggregate accounted for 7.8% and 19.2% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the three largest customers in aggregate accounted for 21.0% and 42.1% respectively of the Group's total revenue for the financial 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 three 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 11 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)(i) to the consolidated financial statements.

LISTING OF SHARES

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

Report of the Directors

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 31 December 2011, the Company had reserves available for distribution of RMB1,814 million (2010: RMB1,886 million).

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

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. Lei Ding *(Appointed on 26 August 2011)*
Mr. Xiaolong Liu *(Resigned on 26 August 2011)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Ms. Yan Zhang, Mr. Hongbin Sun, Mr. Qiyi Luo and Mr. Lei Ding 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 25 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACT

None of the 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 24 September 2011 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.

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 7 and 8 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 31 December 2011, 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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Report of the Directors

1. INTERESTS AND SHORT POSITION IN THE SHARES OF THE COMPANY (THE "SHARES")

Name of Director/Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of total number of Shares in issue (%)
Chang Zhaohua	217,110,000	1	Deemed interest	Long position	15.28%
Luo Qiyi	10,919,550		Beneficial owner	Long position	0.96%
Zhang Yan	3,200,000	2	Beneficial owner	Long position	0.23%

2. INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES

Name of Director/Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of total number of Shares in issue (%)
Chang Zhaohua	10,000,000	3	Beneficial owner	Long position	0.70 %
Zhang Yan	4,500,000	3	Beneficial owner	Long position	0.31 %
Sun Hongbin	4,000,000	3	Beneficial owner	Long position	0.28 %
Luo Qiyi	2,780,450	3	Beneficial owner	Long position	0.19 %

Notes:

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

(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 31 December 2011, 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 31 December 2011, so 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 POSITION IN THE SHARES

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of total number of Shares in issue (%)
Otsuka Holding Co. Ltd.	468,994,120	1	Interest of controlled corporation	Long position	33.02
Otsuka Medical Devices Co., Ltd.	468,994,120	1	Beneficial owner	Long position	33.02
Shanghai Zhangjiang Science and Technology Investment Co.	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai Zhangjiang (Group) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai ZJ Hi-Tech Investment Corporation	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai ZJ Holdings Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.11
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	2	Beneficial owner	Long position	15.20
Shanghai We'Tron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	15.28
We'Tron Capital China Ltd.	217,110,000	3	Beneficial owner	Long position	15.28
Gao Yang Investment Corp.	75,233,720	4	Interest of controlled corporation/ Beneficial owner	Long position	5.30
Shen Yao Fang	75,233,720	4	Interest of controlled corporation	Long position	5.30

Notes:

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

Report of the Directors

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

(4) Shen Yao Fang holds the entire issued share capital of Gao Yang Investment Corp., which in turns holds 52,750,000 Shares. Gao Yang Investment Corp. is also interested in the entire issued share capital of Q1 Capital Corporation, which in turns holds 22,483,720 Shares. Shen Yao Fang and Gao Yang Investment Corp. is therefore deemed to be interests in the same 75,233,720 Shares held by Gao Yang Investment Corp. and Q1 Capital Corporation.

Save as disclosed above, and as at 31 December 2011, 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 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 29 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 29 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 29 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 OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2011, the Company has repurchased a total of 25,000,000 Shares on the Stock Exchange and the details of the Share repurchases are set out below:

Month of repurchase	Total number of Shares repurchased	Purchase price paid per Share		Aggregate purchase price paid
		Highest	Lowest	
		HK$	HK$	HK$
September 2011	8,435,000	4.11	3.62	32,584,506.97
October 2011	10,065,000	4.79	3.82	44,747,453.20
November 2011	6,500,000	4.80	3.87	28,605,483.50
	25,000,000			105,937,443.67

Report of the Directors

The Directors believe that the repurchases of Shares will lead to an enhancement of the net value of the Group and its assets and its earnings per Share.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year under review.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company except that disclosed in note 28.

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 31 December 2011 are set out in note 20 to the consolidated financial statements.

SHARE OPTION SCHEME

PRE-IPO 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") (collectively the "Pre-IPO Share Option Scheme). The 2004 Option Plan, authorized to grant up to 10,261,030 share options, was modified when the Company agreed to assume the obligation of all outstanding and unvested share options of MicroPort Medical (Cayman) Corporation, 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.

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme are 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 31 December 2011, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represent 11.8% of the issued share capital of the Company. However, no additional options have been issued under the Pre-IPO Share Option Scheme since the listing of the Company on the Stock Exchange, and the total outstanding options that has been issued under the Pre-IPO Share Option Scheme is 59,628,170.

The administrator of the Pre-IPO Share Option Scheme may at its discretion select the employees, directors and consultants to whom awards may be granted from time to time. The Pre-IPO Share Option Scheme shall be no more than ten (10) years from the date of grant, and five (5) years if the grantee who owns shares representing more than ten percent (10%) of the voting power of all classes of shares in the Company. The exercise price of the Pre-IPO Share Option Scheme shall be based on one hundred percent (100%) of the fair market value per share on the date of grant, and one hundred ten percent (110%) if the grantee who owns shares representing more than ten percent (10%) of the voting power of all classes of shares in the Company. The administrator shall determine the provisions, terms, and conditions of each award including, but not limited to, the award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, shares, or other consideration) upon settlement of the award, payment contingencies, and satisfaction of any performance criteria.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was approved and adopted pursuant to a written resolution of all the Shareholders of the Company on 3 September 2010 (the "Adoption Date").

The purpose of the Share Option Scheme is to provide the Company with a means of incentivizing Directors, employees of business associates and retaining employees, and to encourage employees to work towards enhancing the value of our Company and promote the long-term growth of the Company. The Share Option Scheme will link the value of the Company with the interests of participants, enabling participants and the Company to develop together and promoting the Company's corporate culture.

The Directors of the Company may, at their discretion, invite any directors (including executive Directors, non-executive Directors and independent non-executive Directors), employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of our Group who our Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the Share Option Scheme.

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. As of 31 December 2011, 1,250,000 Shares were available for issue under the Share Option Scheme, which represented 0.09% of the issued share capital. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-months period shall not exceed 1% of the issued share capital of the Company for the time being.

Report of the Directors

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of option is US$1.00.

At the time of the grant of the options, the Company will specify the minimum period for which an option must be held before it can be exercised. The Share Option Scheme does not contain any such minimum period. The period within which the option must be exercised will be specified by the Company at the time of grant. Such period must expire no later than 10 years from the relevant date of grant (being the date of which the Board resolves to make an offer of options to the relevant grantee).

The Board will determine the price per Share upon the exercise of an option according to the terms of the Share Option Scheme, provided that it shall be at the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Hong Kong Stock Exchange on the date of the offer of a grant; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of the offer of a grant; and (iii) the nominal value of a share on the date of grant.

The Share Option Scheme will remain in force for a period of 10 years after the Adoption Date.

During the year, 1,250,000 share options were granted and the status of the share options granted up to 31 December 2011 is as follows:

Category of participants	As at 1 January 2011	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2011	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	10,000,000	–	–	–	10,000,000	9 July 2010	9 July 2011 – 8 July 2014	9 July 2011 – 8 July 2020	USD0.3062	NA
In aggregate	10,000,000	–	–	–	10,000,000					
Yan Zhang	1,000,000	–	–	–	1,000,000	25 July 2008	25 July 2008 – 27 April 2010	25 July 2008 – 24 July 2018	USD0.3062	NA
	2,500,000	–	–	–	2,500,000	9 July 2010	9 July 2010 – 8 July 2014	9 July 2011 – 8 July 2020	USD0.3062	NA
	1,000,000	–	–	–	1,000,000	9 August 2010	9 August 2010 – 8 August 2014	28 April 2011 – 8 August 2020	USD0.3062	NA
In aggregate	4,500,000	–	–	–	4,500,000					
Qiyi Luo	280,450	–	–	–	280,450	2 March 2007	2 March 2007 – 14 February 2011	15 February 2008 – 24 January 2017	USD0.275	NA
	2,500,000	–	–	–	2,500,000	9 July 2010	9 July 2010 – 8 July 2014	9 July 2011 – 8 July 2020	USD0.3062	NA
In aggregate	2,780,450	–	–	–	2,780,450					

Report of the Directors

Category of participants	As at 1 January 2011	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2011	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
Hongbin Sun	4,000,000	–	–	–	4,000,000	9 August 2010	9 August 2010 – 8 August 2014	1 September 2011 – 8 August 2020	USD0.3062	NA
In aggregate	4,000,000	–	–	–	4,000,000					
In Aggregate	**21,280,450**	**–**	**–**	**–**	**21,280,450**					
Consultants										
	4,912,080	–	700,000	–	4,212,080	20 February 2004	24 September 2010 – 23 September 2011	24 September 2011 – 19 February 2014	USD0.025	NA
	1,774,080	–	–	–	1,774,080	20 February 2004	24 September 2010 – 23 September 2011	24 September 2011 – 19 February 2014	HKD0.05498	NA
	818,680	–	–	–	818,680	20 February 2004	24 September 2010 – 23 September 2011	24 September 2011 – 19 February 2014	HKD0.05827	NA
	1,774,080	–	–	–	1,774,080	20 February 2004	24 September 2010 – 23 September 2011	24 September 2011 – 19 February 2014	HKD0.07046	NA
	1,000,000	–	–	–	1,000,000	17 May 2007	17 May 2007 – 16 May 2011	17 May 2008 – 16 May 2017	USD0.3062	NA
	500,000	–	–	–	500,000	14 June 2007	24 September 2010 – 23 September 2014	24 September 2010 – 23 September 2020	USD0.3062	NA
In aggregate	10,778,920	–	700,000	–	10,078,920					

Report of the Directors

Category of participants	As at 1 January 2011	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2011	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
Employees										
	818,680	–	–	–	818,680	20 February 2004	24 September 2010 – 23 September 2011	24 September 2011 – 19 February 2014	HKD0.05637	NA
	3,025,280	–	37,390	–	2,987,890	2 March 2007	2 March 2007 – 14 February 2011	15 February 2008 – 24 January 2017	USD0.275	NA
	3,488,620	–	772,130	167,490	2,549,000	23 April 2007	23 April 2007 – 1 March 2013	23 April 2007 – 22 April 2017	USD0.275	NA
	500,000	–	–	–	500,000	14 June 2007	23 September 2007 – 22 September 2012	23 September 2008 – 22 September 2017	USD0.3062	NA
	1,000,000	–	75,000	–	925,000	25 July 2008	25 July 2008 – 24 July 2012	25 July 2009 – 24 July 2018	USD0.3062	NA
	2,500,000	–	1,250,000	1,250,000	–	1 December 2008	10 September 2008 – 9 September 2012	10 September 2009 – 9 September 2018	USD0.3062	NA
	200,000	–	–	–	200,000	1 December 2008	24 June 2008 – 23 June 2012	24 June 2009 – 23 June 2018	USD0.3062	NA
	1,500,000	–	–	–	1,500,000	1 December 2008	1 January 2009 – 31 December 2012	1 January 2010 – 31 December 2018	USD0.3062	NA
	250,000	–	–	–	250,000	6 February 2009	6 February 2009 – 5 February 2014	6 February 2010 – 5 February 2019	USD0.425	NA
	4,000,000	–	–	–	4,000,000	21 October 2009	9 October 2009 – 8 October 2014	9 October 2010 – 20 October 2019	USD0.3062	NA
	1,500,000	–	–	–	1,500,000	21 October 2009	15 October 2009 – 14 October 2014	15 October 2010 – 20 October 2019	USD0.3062	NA
	500,000	–	–	–	500,000	21 October 2009	1 January 2010 – 31 December 2014	1 January 2011 – 20 October 2019	USD0.3062	NA
	700,000	–	–	–	700,000	8 July 2010	1 August 2010 – 31 July 2014	1 August 2011 – 7 July 2020	USD0.3062	NA
	530,940	–	–	216,440	314,500	8 July 2010	8 July 2010 – 7 July 2014	8 July 2011 – 7 July 2020	USD0.3062	NA
	13,648,730	–	625,000	1,500,000	11,523,730	9 July 2010	9 July 2010 – 8 July 2014	9 July 2011 – 8 July 2020	USD0.3062	NA
	–	500,000	–	–	500,000	17 October 2011	17 October 2012 – 17 December 2018	17 October 2012 – 16 October 2021	HKD4.790	NA
	–	750,000	–	–	750,000	1 November 2011	1 November 2012 – 1 November 2017	1 November 2012 31 October 2021	HKD4.470	NA
In aggregate	34,162,250	1,250,000	2,759,520	3,133,930	29,518,800					
Total	**66,221,620**	**1,250,000**	**3,459,520**	**3,133,930**	**60,878,170**					

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 during the financial year ended 31 December 2011.

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 SHARE REGISTER

The Directors recommend the payment of a final dividend for 2011 of HK$0.07 (equivalent to RMB0.06) per share to shareholders of the Company on the register of members of the Company on 5 July 2012. Based on the number of issue shares as at 31 December 2011. This represents a total distribution of approximately HK$99 million (equivalent to RMB81 million).

The Annual General Meeting ("AGM") of the Company is scheduled on Tuesday, 26 June 2012. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 22 June 2012 to Tuesday, 26 June 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 21 June 2012.

The proposed final dividend is subject to the approval of the shareholders of the Company at the AGM. The record date for entitlement to the proposed final dividend is Thursday, 5 July 2012. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 3 July 2012 to Thursday, 5 July 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 June 2012. It is expected that the final dividend will be paid on or around 27 July 2012.

Report of the Directors

AUDITORS

KPMG has acted as auditors of the Company for the financial year ended 31 December 2011.

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

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

Shanghai, The PRC
19 March 2012

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the financial year ended 31 December 2011.

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 of 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 throughout the financial year ended 31 December 2011, 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 that these continue to meet the requirements of 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 to 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

Membership of the Board is currently made up of ten members in total, with four executive Directors, three non-executive Directors and three independent non-executive Directors.

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.

Corporate Governance Report

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. Lei Ding *(Appointed on 26 August 2011)*
Mr. Xiaolong Liu *(Resigned on 26 August 2011)*

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.

Throughout the financial year ended 31 December 2011, 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. In order to oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established three Broad Committees, namely the Audit Committee, the Remuneration Committee and Nomination Committee. The Independent non-executive Directors are invited to serve on these three committees.

CHAIRMAN AND PRESIDENT

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

With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner. 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.

Non-executive Directors do not have a specific term of appointment, but are subject to retirement by rotation and re-election by shareholders at the annual general meeting in accordance with the Company's Articles of Association.

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 of Directors and assessing the independence of independent non-executive Directors. A summary of the membership and responsibilities of the Nomination Committee is discussed below.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors have been informed of the requirement under code provision A.6.1. of the Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the 2012 annual report of the Company.

NOMINATION COMMITTEE

The Nomination Committee comprises three members namely:–

Mr. Zezhao Hua *(chairman of the Committee) (appointed on 19 March 2012)*
Dr. Guoen Liu
Mr. Lei Ding *(appointed on 26 August 2011 and resigned as chairman on 19 March 2012)*
Mr. Xiaolong Liu *(resigned on 26 August 2011)*

Majority of the members are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

The Nomination Committee held 1 meeting during the year ended 31 December 2011 and all the members at that time attended the meeting. The members reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

In accordance with the Company's Articles of Association, Mr. Lei Ding, having been appointed as a non-executive Director of the Company during the year, shall retire and being eligible, offer himself for re-election at the next forthcoming annual

Corporate Governance Report

general meeting. In addition, Ms. Yan Zhang, Mr. Hongbin Sun and Mr. Qiyi Luo shall retire by rotation 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.

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

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

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 joint company secretaries 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 31 December 2011, 4 regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings subsequent to his/her appointment as a Director, during the year ended 31 December 2011 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	4/4
Ms. Yan Zhang	4/4
Mr. Hongbin Sun	4/4
Mr. Qiyi Luo	4/4
Non-Executive Directors	
Mr. Norihiro Ashida	4/4
Mr. Hiroshi Shirafuji	4/4
Mr. Lei Ding *(Appointed on 26 August 2011)*	2/2
Mr. Xiaolong Liu *(Resigned on 26 August 2011)*	2/2
Independent Non-Executive Directors	
Mr. Zezhao Hua	4/4
Mr. Jonathan H. Chou	4/4
Dr. Guoen Liu	4/4

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of 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 for transactions in the Company's securities throughout the financial year ended 31 December 2011.

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.

The Board recently learned of an employee's failure to notify the Company of his disposal of Shares as required by the Employees Written Guidelines. The Board has confirmed that this disposal of Shares did not occur during a blackout period, and is in the process of gathering relevant information about the circumstances of the employee's failure to notify. The Board will consider appropriate remedial measures (if any) to address this non-compliance when its review is complete. No other incident of non-compliance with the Employees Written Guidelines was noted by the Company.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, 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 Board has delegated a schedule of responsibilities to the President and senior management of the Company. These responsibilities include implementing decisions of the Board, directing and coordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operating and production plans and budgets, and supervising and monitoring the control systems.

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 on 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. Guoen Liu *(chairman of the Committee) (appointed as chairman on 19 March 2012)*
Mr. Jonathan H. Chou
Dr. Zhaohua Chang *(resigned as chairman on 19 March 2012)*

Majority of the members are independent non-executive Directors.

The primary functions of the Remuneration Committee include making recommendations on the remuneration policy and structure of the Directors and senior management and determining the remuneration packages of the executive Directors and the 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/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held 1 meeting during the year ended 31 December 2011 and all the members at that time attended the meeting.

Corporate Governance Report

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 financial year ended 31 December 2011.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Board has received from the senior management the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

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:

- Review of the financial information of the Group
- Review of the relationship with and the terms of appointment of the external auditors
- Review of the Company's financial reporting system, internal control system and risk management system.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2011, 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 4 meetings during the year ended 31 December 2011 and all the members attended the meetings.

Corporate Governance Report

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 53 in this annual report.

For the financial year ended 31 December 2011, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (RMB'000)
KPMG	2,369.9

The service performed by KPMG related to the statutory audit of the Group's consolidated financial statements.

Corporate Governance Report

Non-audit Services

Reporting accountants	Fees (RMB'000)
KPMG	53.2

The services performed by KPMG were related to tax consultation.

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.

The general meetings of the Company provide an important channel for exchange of views 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 2012 Annual General Meeting ("AGM") will be held on 26 June, 2012. 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

Independent auditor's report to the shareholders of MicroPort Scientific Corporation
(Incorporated in the 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 54 to 144, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 the 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.

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 31 December 2011 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.

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

19 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011
(Expressed in Renminbi unless otherwise indicated)

	Note	2011 RMB'000	2010 RMB'000
Turnover	3	**839,849**	727,718
Cost of sales		**(137,268)**	(98,205)
Gross profit		**702,581**	629,513
Other revenue	4	**53,156**	22,854
Other net income/(loss)	4	**40,671**	(30,523)
Research and development costs		**(153,035)**	(117,855)
Distribution costs		**(152,112)**	(129,048)
Administrative expenses		**(97,920)**	(69,718)
Other operating costs		**(17,912)**	(18,643)
Profit from operations		**375,429**	286,580
(Finance costs)/ income	5(a)	**(1,376)**	8,576
Profit before taxation	5	**374,053**	295,156
Income tax	6(a)	**(53,198)**	(55,055)
Profit for the year		**320,855**	240,101
Earnings per share	10		
Basic (RMB)		**0.22**	0.20
Diluted (RMB)		**0.22**	0.20

The notes on pages 64 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(Expressed in Renminbi unless otherwise indicated)

	Note	**2011 RMB'000**	2010 RMB'000
Profit for the year		**320,855**	240,101
Other comprehensive income for the year			
Exchange differences of translation of financial statements of entities outside the PRC, net of nil tax		**(62,322)**	(16,257)
Total comprehensive income for the year		**258,533**	223,844

The notes on pages 64 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Renminbi unless otherwise indicated)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Fixed assets			
– Property, plant and equipment	11	**322,113**	223,019
– Land use rights	11	**38,269**	36,770
		360,382	259,789
Intangible assets	12	**85,632**	19,454
Prepayments for fixed assets		**46,978**	15,506
Goodwill	13	**64,466**	2,105
Deferred tax assets	22(b)	**11,674**	9,928
		569,132	306,782
Current assets			
Inventories	15	**73,962**	84,616
Trade and other receivables	16	**286,617**	209,918
Deposits with banks	17	**319,279**	644,273
Cash and cash equivalents	18	**1,095,209**	928,053
		1,775,067	1,866,860
Current liabilities			
Trade and other payables	19	**141,284**	95,915
Short term loan	20	**2,000**	50,000
Long term loan (current portion)	20	**476**	462
Income tax payable	22(a)	**10,059**	16,941
Deferred income	23	**114**	128
		153,933	163,446
Net current assets		**1,621,134**	1,703,414
Total assets less current liabilities		**2,190,266**	2,010,196

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Renminbi unless otherwise indicated)

	Note	**2011 RMB'000**	2010 RMB'000
Non-current liabilities			
Long term loan	*20*	**3,193**	3,670
Deferred income	*23*	**46,628**	20,688
Deferred tax liabilities	*22(b)*	**25,290**	15,159
		75,111	39,517
NET ASSETS		**2,115,155**	1,970,679
CAPITAL AND RESERVES			
Share capital	*25(c)*	**109**	110
Reserves		**2,115,046**	1,970,569
TOTAL EQUITY		**2,115,155**	1,970,679

Approved and authorised for issue by the board of directors on 19 March 2012.

Zhaohua Chang
Chairman

Hongbin Sun
Chief Financial Officer

The notes on pages 64 to 144 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Renminbi unless otherwise indicated)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	*14*	**827,561**	545,404
Current assets			
Trade and other receivables	*16*	**5,408**	10
Deposits with banks	*17*	**300,000**	600,000
Cash and cash equivalents	*18*	**686,154**	800,229
		991,562	1,400,239
Current liabilities			
Trade and other payables	*19*	**23,653**	36,164
		23,653	36,164
Net current assets		**967,909**	1,364,075
Total assets less current liabilities		**1,795,470**	1,909,479
Non-current liabilities			
Deferred tax liabilities	*22(b)*	**–**	5,146
NET ASSETS		**1,795,470**	1,904,333

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Renminbi unless otherwise indicated)

	Note	**2011** **RMB'000**	2010 RMB'000
CAPITAL AND RESERVES	*25(a)*		
Share capital		**109**	110
Reserves		**1,795,361**	1,904,223
TOTAL EQUITY		**1,795,470**	1,904,333

Approved and authorised for issue by the board of directors on 19 March, 2012.

Zhaohua Chang
Chairman

Hongbin Sun
Chief Financial Officer

The notes on pages 64 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(Expressed in Renminbi unless otherwise indicated)

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 Note 25(c)(i)	Share premium RMB'000 Note 25(d)(i)	Capital redemption reserve RMB'000	Exchange reserve RMB'000 Note 25(d)(ii)	Capital reserve RMB'000 Note 25(d)(iii)	Statutory general reserve RMB'000 Note 25(d)(iv)	Retained profits RMB'000	Total RMB'000
At 1 January 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(d)*	–	–	–	–	20,837	–	–	20,837
Shares issued under the share option plans	*25(c)(iv)*	–	10,923	–	–	(3,682)	–	–	7,241
Issuance of shares for initial public offering	*25(c)(i)(3)*	20	1,529,878	–	–	–	–	–	1,529,898
Share issuance costs	*25(c)(i)(3)*	–	(89,997)	–	–	–	–	–	(89,997)
Conversion of redeemable convertible preference shares	*25(c)(i)(4)*	1	64,733	–	–	–	–	–	64,734
At 31 December 2010		110	1,532,435	–	(4,111)	24,505	13,828	403,912	1,970,679

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Expressed in Renminbi unless otherwise indicated)

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 Note 25(c)(i)	Share premium RMB'000 Note 25(d)(i)	Capital redemption reserve RMB'000	Exchange reserve RMB'000 Note 25(d)(ii)	Capital reserve RMB'000 Note 25(d)(iii)	Statutory general reserve RMB'000 Note 25(d)(iv)	Retained profits RMB'000	Total RMB'000
At 1 January 2011		110	1,532,435	–	(4,111)	24,505	13,828	403,912	1,970,679
Changes in equity for 2011:									
Profit for the year		–	–	–	–	–	–	320,855	320,855
Other comprehensive income		–	–	–	(62,322)	–	–	–	(62,322)
Total comprehensive income		–	–	–	(62,322)	–	–	320,855	258,533
Dividends approved in respect of the previous year	*25(b)(ii)*	–	–	–	–	–	–	(60,042)	(60,042)
Equity-settled share-based transactions	*24(d)*	–	–	–	–	26,695	–	–	26,695
Shares issued under the share option plans	*25(c)(iv)*	–	8,485	–	–	(3,118)	–	–	5,367
Repurchase of own shares	*25(c)(iii)*								
– par value paid		(1)	–	–	–	–	–	–	(1)
– premium paid		–	–	–	–	–	–	(86,576)	(86,576)
– transfer between reserves		–	–	1	–	–	–	(1)	–
Appropriation of statutory general reserve		–	–	–	–	–	30,107	(30,107)	–
Shares purchased under share award scheme	*24(c)*	–	–	–	–	(14,925)	–	–	(14,925)
Shares granted under share award scheme	*24(c), 24(d)*	–	–	–	–	15,425	–	–	15,425
At 31 December 2011		109	1,540,920	1	(66,433)	48,582	43,935	548,041	2,115,155

The notes on pages 64 to 144 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

(Expressed in Renminbi unless otherwise indicated)

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Cash generated from operations	18(b)	**364,339**	283,490
Tax paid:			
– PRC Corporate Income Tax paid		**(63,999)**	(55,913)
– PRC dividend withholding tax paid		**–**	(31,450)
– Non-PRC income tax paid		**(210)**	(35)
Net cash generated from operating activities		**300,130**	196,092
Investing activities			
Payment for the purchase of fixed assets		**(155,256)**	(96,808)
Proceeds from sale of fixed assets		**11**	–
Government grant received related to assets		**5,307**	–
Expenditure on development project		**(31,454)**	(10,166)
Placement of deposits with banks with original maturities over three months		**(520,000)**	(680,000)
Uplift of deposits with banks with original maturities over three months		**845,000**	231,000
Increase in pledged deposits		**(6)**	(1,678)
Interest received		**27,418**	6,908
Payments for acquisition of subsidiaries	28	**(93,274)**	–
Net cash generated from/(used in) investing activities		**77,746**	(550,744)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011
(Expressed in Renminbi unless otherwise indicated)

	Note	2011 RMB'000	2010 RMB'000
Financing activities			
Proceeds from new loans		–	100,000
Repayments of loans		(50,590)	(50,590)
Proceeds from shares issued under the share option plans	25(c)(iv)	5,367	7,241
Interest paid		(779)	(3,921)
Dividends paid to ordinary shareholders		(59,410)	(275,287)
Dividends paid to holder of redeemable convertible preference shares		–	(7,484)
Payment for repurchase of shares		(86,577)	–
Payment for repurchase of shares under share award scheme		(15,425)	–
Net proceeds from initial public offering		–	1,422,755
Net cash (used in)/generated from financing activities		(207,414)	1,192,714
Net increase in cash and cash equivalents		170,462	838,062
Cash and cash equivalents at 1 January		928,053	90,194
Effect of foreign exchange rate changes		(3,306)	(203)
Cash and cash equivalents at 31 December	18(a)	1,095,209	928,053

The notes on pages 64 to 144 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements 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 MicroPort Scientific Corporation ("the Company") and its subsidiaries (hereafter collectively referred to as "the Group"). Note 1 (c) 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 consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries and are presented in Renminbi ("RMB"), which is the functional currency of the Group's major operating subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

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 2.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), Related party disclosures

- Improvements to HKFRSs (2010)

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

The impacts of the developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 26 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) 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 unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised 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 recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries (continued)

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 recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(i)).

(e) 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 recognised 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(i)).

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.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives 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	4 to 5 years
– Computer software	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation 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 amortised from the date they are available for use and their estimated useful lives are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (other than goodwill) (continued)

– Diabetes technology	17 years
– Diabetes licence	17 years
– Trademark	35 months
– Capitalised development costs	5 years
– Orthopedics customer relationship	10 years
– Orthopedics production licences	12 years

Both the period and method of amortisation are reviewed annually.

(h) 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 made 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 instalments 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 recognised 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 amortised on a straight-line basis over the period of the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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 amortised cost are reviewed at the end of each reporting period 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 reorganisation; 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 recognised 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(i)(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(i)(ii).

– For trade and other receivables and other financial assets carried at amortised 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 these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, 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 recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised 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 recognised in profit or loss.

(ii) Impairment of other assets

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

- property, plant and equipment;
- land use rights;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised 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 recognised 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 asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and 1(i)(ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (note 1(i)), 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.

(l) Interest-bearing borrowings

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

(m) Repurchase and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is deducted from equity attributable to the Company’s equity holders. Repurchased shares held at the end of reporting period are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the consideration received, net of any directly attributable transaction costs, is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in capital reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Trade and other payables

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

(o) 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.

(p) Employee benefits

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial tree 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.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the 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 recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the vested option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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 recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised 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 end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. 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 utilised.

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 recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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 utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) 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 recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(r)(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(r)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

(s) 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 recognised in profit or loss as follows:

(i) Sale of goods

The Group recognises 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. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

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

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

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 end of the reporting period. Exchange gains and losses are recognised 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 the entities outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the date of the transaction. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an entity outside the PRC, 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 recognised.

(u) 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 capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation 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. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(w) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 12, 13, 24 and 26 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of inventories

Net realisable 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 realisable value.

(b) 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.

(c) 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 recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, 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 recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The Group derives revenue principally from the sales of medical devices through appointed sales distributors. The Group does not provide product warranties to customers. Sales returns are only allowed when defective products are reported to the Group within the time as agreed by buyer and seller.

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

	2011 RMB'000	2010 RMB'000
Vascular devices		
– Drug eluting stents	**729,329**	627,756
– TAA/AAA stent grafts	**50,322**	46,516
– Others	**50,406**	46,017
Diabetes devices	**2,828**	5,938
Orthopedics devices	**1,462**	–
Electrophysiology devices	**5,502**	1,491
	839,849	727,718

The Group's customer base includes three customers with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2011 (2010: three customers). Revenue from the vascular devices business in respect of these customers is set out below:

	2011 RMB'000	2010 RMB'000
Customer A	**176,158**	156,943
Customer B	**92,133**	83,314
Customer C	**85,074**	83,834
	353,365	324,091

A group of entities known to be under common control is considered as a single customer in the above analysis. All of the above three customers purchase medical devices from the Group in the PRC. Details of concentrations of credit risk are set out in note 26(a).

Further details regarding the Group's principal activities are disclosed below:

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3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both 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 four reportable segments.

- Vascular devices business: sales, manufacture, research and development of drug eluting stents, TAA/AAA stent grafts, bare metal stents and medical stent related products to appointed sales distributors.
- Diabetes devices business: sales, manufacture, research and development of devices related to diabetes mellitus.
- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.
- Electrophysiology devices business: sales, manufacture, research and technology development of electrophysiology devices.

(i) 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 and other payables, bank loans, interest-bearing borrowings and deferred income attributable to the activities of each individual segment.

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 amortisation 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 exchange gain/(loss), unallocated corporate income and expenses, equity-settled share-based payment expenses, changes in fair value of redeemable convertible preference shares, listing expenses incurred for the Company's initial public offerings and PRC dividend withholding tax are excluded from segment net profit/(loss).

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For the year ended 31st December 2011
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3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment Reporting (continued)

(i) Segment results, assets and liabilities (continued)

In addition to receiving segment information concerning segment net profit/(loss), management is provided with segment information concerning revenue from external customers, depreciation and amortisation, income tax, write-down of inventories, impairment losses of non-current assets and additions to non-current segment assets used by the segments in their operations.

	2011				
	Vascular devices business RMB'000	Diabetes devices business RMB'000	Orthopedics devices business RMB'000	Electrophysiology devices business RMB'000	Total RMB'000
Revenue from external customers	**830,057**	**2,828**	**1,462**	**5,502**	**839,849**
Reportable segment profit/(loss)	**363,109**	**(21,003)**	**(18,601)**	**(23,250)**	**300,255**
Depreciation and amortisation for the year	27,665	2,422	4,397	2,473	36,957
Income tax	55,581	(2,294)	(89)	–	53,198
Write-down of inventories	11,563	509	–	–	12,072
Impairment losses of non-current assets					
– property, plant and equipment	1,016	–	–	–	1,016
– intangible assets	–	8,543	–	–	8,543
– goodwill	–	2,105	–	–	2,105
Reportable segment assets	**1,066,008**	**28,006**	**208,382**	**50,217**	**1,352,613**
Additions to non-current segment assets	145,939	460	136,158	2,805	285,362
Reportable segment liabilities	**161,793**	**4,565**	**47,896**	**540**	**214,794**

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For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment Reporting (continued)

(i) Segment results, assets and liabilities (continued)

	2010				
	Vascular devices business RMB'000	Diabetes devices business RMB'000	Orthopedics devices business RMB'000	Electrophysiology devices business RMB'000	Total RMB'000
Revenue from external customers	720,289	5,938	–	1,491	727,718
Reportable segment profit/(loss)	341,833	(10,540)	(15,817)	(16,889)	298,587
Depreciation and amortisation for the year	23,172	2,228	1,697	724	27,821
Income tax	54,879	176	–	–	55,055
Write-down of inventories	(1,942)	50	–	–	(1,892)
Reportable segment assets	632,535	50,446	33,484	56,903	773,368
Additions to non-current segment assets	79,409	1,826	8,692	2,637	92,564
Reportable segment liabilities	166,724	5,789	–	4,359	176,872

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For the year ended 31st December 2011
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3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment Reporting (continued)

(ii) Reconciliation of reportable segment profit or loss, assets and liabilities

	2011 RMB'000	2010 RMB'000
Profit		
Reportable segment net profit	**300,255**	298,587
Equity-settled share-based payment expenses (note 24(d))	**(42,120)**	(20,837)
Dividends on redeemable convertible preference shares	**–**	(4,888)
Change in fair value of redeemable convertible preference shares	**–**	17,528
Listing expenses	**–**	(17,146)
Unallocated exchange gain/(loss)	**44,088**	(30,802)
Unallocated income and expenses	**18,632**	(2,341)
Consolidated profit for the year	**320,855**	240,101

	2011 RMB'000	2010 RMB'000
Assets		
Reportable segment assets	**1,352,613**	773,368
Unallocated corporate assets:		
– Cash and cash equivalents	**686,218**	800,274
– Deposits with banks	**300,000**	600,000
– Others	**5,368**	–
	991,586	1,400,274
Consolidated total assets	**2,344,199**	2,173,642
Liabilities		
Reportable segment liabilities	**214,794**	176,872
Deferred tax liabilities (note 22(b)(i))	**12,865**	12,865
Unallocated corporate liabilities	**1,385**	13,226
Consolidated total liabilities	**229,044**	202,963

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment Reporting (continued)

(iii) Geographical 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 geographical location is not presented.

	2011 RMB'000	2010 RMB'000
The PRC (country of domicile)	**781,481**	673,135
Asia	**26,788**	24,671
South America	**22,790**	18,176
Europe	**8,790**	11,736
	58,368	54,583
	839,849	727,718

4 OTHER REVENUE AND NET INCOME/(LOSS)

	2011 RMB'000	2010 RMB'000
Other revenue		
Government grants	**21,031**	18,018
Interest income on bank deposits	**32,117**	4,314
Others	**8**	522
	53,156	22,854
Other net income/(loss)		
Net loss on disposal of property, plant and equipment	**(118)**	(15)
Net foreign exchange gain/(loss)	**40,789**	(30,508)
	40,671	(30,523)

NOTES TO THE FINANCIAL STATEMENTS

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5 PROFIT BEFORE TAXATION

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

	2011 RMB'000	2010 RMB'000
(a) Finance costs/(income)		
Interest on borrowings	**934**	3,585
Others	**442**	479
Total interest expense on financial liabilities not at fair value through profit or loss	**1,376**	4,064
Dividends on redeemable convertible preference shares (note 25(b)(iii))	**–**	4,888
Change in fair value of redeemable convertible preference shares	**–**	(17,528)
	1,376	(8,576)
(b) Staff costs		
Contributions to defined contribution retirement plan	**31,599**	24,735
Equity-settled share-based payment expenses (note 24(d))	**42,088**	20,817
Salaries, wages and other benefits	**148,352**	124,401
	222,039	169,953

Pursuant to the relevant labor rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement schemes organised 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

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

	2011 RMB'000	2010 RMB'000
(c) Other items		
Amortisation		
– land use rights	**792**	778
– intangible assets	**1,054**	735
	1,846	1,513
Depreciation	**34,760**	26,308
Impairment losses:		
– property, plant and equipment (note 11)	**1,016**	–
– intangible assets (note 12)	**8,543**	–
– goodwill (note 13)	**2,105**	–
– trade and other receivables (note 16(b))	**–**	(28)
	11,664	(28)
Operating lease charges: minimum lease payments		
– hire of property and plant	**5,161**	2,832
Auditors' remuneration:		
– audit services	**2,370**	2,440
– tax services	**53**	–
	2,423	2,440
Research and development costs (other than amortisation costs)	**153,035**	117,855
Listing expenses	**–**	17,146
Cost of inventories (note 15(b))	**172,063**	123,901

NOTES TO THE FINANCIAL STATEMENTS

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6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011 **RMB'000**	2010 RMB'000
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**57,280**	78,105
Over provision in respect of prior years	**(21)**	(164)
	57,259	77,941
Current tax – Other than the PRC		
Provision for the year	**67**	99
Deferred tax		
Origination and reversal of temporary differences	**(4,128)**	(22,985)
	53,198	55,055

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 14 to these financial statements.

The Company is incorporated in the Cayman Islands. The Company's subsidiaries, namely MicroPort Medical Limited ("MP Medical"), Leader City Limited ("Leader City"), MicroPort Orthopidics Corp. ("MP Orthopidics BVI") and MicroPort Endovascular Corp. ("MP Endovascular BVI") 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, Leader City, MP Orthopidics BVI and MP Endovascular BVI, no withholding tax is imposed.

MicroPort Medical 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 31 December 2010 and 2011.

MicroPort Orthopidics China Corp. Limited ("MP Orthopidics HK") and MicroPort Endovascular China Corp. Limited ("MP Endovascular HK") are incorporated in Hong Kong. MP Orthopidics HK and MP Endovascular HK are subject to Hong Kong profits tax at 16.5% of the estimated assessable profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents: (continued)

MicroPort Medical (Shanghai) Co., Ltd. ("MP Shanghai"), the Company's PRC subsidiary, has been certified as "advanced and new technology enterprise" since 2008. According to Guoshuihan 2009 No.203, if an entity is certified as an "advanced and new technology enterprise", it is entitled to a preferential income tax rate of 15%. According to the PRC laws and regulations, MP Shanghai has to apply for the continuing entitlement of "advanced and new technology enterprise" every three years. MP Shanghai has obtained the renewed certificate of "advanced and new technology enterprise" dated 17 August 2011. Therefore, a 15% income tax rate is applied when calculating the income tax of MP Shanghai for the year ended 31 December 2011.

All of the other PRC subsidiaries of the Group are subject to income tax at 25% (2010: 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 1 January 2008.

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

	2011 **RMB'000**	2010 RMB'000
Profit before taxation	**374,053**	295,156
PRC statutory income tax rate	**25%**	25%
Computed "expected" income tax expense	**93,513**	73,789
Effect of PRC preferential tax rate	**(37,023)**	(36,614)
Effect of Netherlands' tax rate differential	**(17)**	(25)
Effect of entities not subject to income tax	**(15,317)**	9,412
Effect of non-deductible equity-settled share-based payment expenses	**6,674**	5,210
Effect of other non-deductible expenses	**2,557**	2,731
Effect of deemed taxable income (note)	**2,457**	2,029
Effect of super-deduction on research and development expenses	**(7,751)**	(5,918)
Effect of tax losses not recognised	**8,126**	4,605
Over provision in respect of prior years	**(21)**	(164)
Actual income tax expense	**53,198**	55,055

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.

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7 DIRECTORS' REMUNERATION

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

	2011					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Executive directors						
Zhaohua Chang	–	639	–	–	7,280	7,919
Yan Zhang*	–	1,478	–	51	2,785	4,314
Hongbin Sun	–	1,201	1,789	51	3,604	6,645
Qiyi Luo	–	1,478	1,361	–	1,829	4,668
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Lei Ding (appointed on 26 August 2011)	–	–	–	–	–	–
Xiaolong Liu (resigned on 26 August 2011)	–	–	–	–	–	–
Independent non-executive directors						
Zezhao Hua	150	–	–	–	–	150
Jonathan Chou	180	–	–	–	–	180
Guoen Liu	150	–	–	–	–	150
	480	4,796	3,150	102	15,498	24,026

* Discretionary bonus to Yan Zhang in 2011 is still subject to further consideration.

NOTES TO THE FINANCIAL STATEMENTS

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7 DIRECTORS' REMUNERATION (continued)

	2010					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment expenses 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

During the year ended 31 December 2011, 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 (2010: Nil).

NOTES TO THE FINANCIAL STATEMENTS

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8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2010: two) individuals are as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and other benefits	**1,083**	2,230
Retirement scheme contributions	**51**	–
Discretionary bonuses	**1,954**	1,738
Equity-settled share-based payment expenses	**1,633**	3,784
	4,721	7,752

The emoluments of the one (2010: two) individual with the highest emoluments are within the following bands:

	2011 **Number of Individuals**	2010 Number of Individuals
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**1**	–

During the year ended 31 December 2011, 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 (2010: Nil).

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9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB66,427,000 (2010: a loss of RMB37,555,000) 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:

	2011 RMB'000	2010 RMB'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's financial statements	**66,427**	(37,555)
Final dividend from subsidiaries attributable to the profits of previous financial year, approved and paid during the year	**–**	184,249
Company's profit for the year (note 25(a))	**66,427**	146,694

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

10 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 of the Company of RMB320,855,000 (2010: RMB240,101,000) and the weighted average of 1,437,910,000 ordinary shares (2010: 1,219,528,000 ordinary shares) in issue during the year, taking into account the 10-for-1 share split of the Company's ordinary shares occurred on 24 September 2010 as if the share split had occurred at the beginning of the years presented (note 25(c)(i)).

(i) Weighted average number of ordinary shares

	2011 '000	2010 '000
Issued ordinary shares at 1 January	**1,442,023**	1,135,040
Effect of share options exercised	**1,155**	2,630
Effect of shares repurchased	**(5,268)**	–
Effect of issuance of shares for placing and the initial public offering	**–**	78,523
Effect of conversion of redeemable convertible preference shares	**–**	3,335
Weighted average number of ordinary shares at 31 December	**1,437,910**	1,219,528

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10 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 of RMB320,855,000 (2010: RMB240,101,000) and the weighted average number of ordinary shares of 1,464,056,000 shares (2010: 1,222,523,000 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

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

	2011 Number of shares '000	2010 Number of shares '000
Weighted average number of ordinary shares during the year	**1,437,910**	1,219,528
Effect of deemed issue of shares under the Company's option scheme at nil consideration	**26,146**	2,995
Weighted average number of ordinary shares during the year	**1,464,056**	1,222,523

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11 FIXED ASSETS

(a) The Group

	Buildings held for own use RMB'000	Leasehold improve-ments RMB'000	Equip-ment and machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Construc-tion in progress RMB'000	Sub-total RMB'000	Land use rights RMB'000	Total RMB'000
Cost:										
At 1 January 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 31 December 2010	95,532	31,261	117,812	20,721	11,963	11,091	28,785	317,165	38,913	356,078
At 1 January 2011	**95,532**	**31,261**	**117,812**	**20,721**	**11,963**	**11,091**	**28,785**	**317,165**	**38,913**	**356,078**
Exchange adjustments	**–**	**–**	**–**	**(14)**	**–**	**(21)**	**–**	**(35)**	**–**	**(35)**
Transfer	**–**	**1,878**	**2,422**	**25**	**54**	**–**	**(4,379)**	**–**	**–**	**–**
Additions	**970**	**4,117**	**23,937**	**3,574**	**2,927**	**2,341**	**80,020**	**117,886**	**–**	**117,886**
Acquisition of subsidiaries	**7,437**	**–**	**9,476**	**85**	**476**	**–**	**–**	**17,474**	**2,291**	**19,765**
Disposals	**–**	**–**	**(850)**	**(1,365)**	**–**	**–**	**–**	**(2,215)**	**–**	**(2,215)**
At 31 December 2011	**103,939**	**37,256**	**152,797**	**23,026**	**15,420**	**13,411**	**104,426**	**450,275**	**41,204**	**491,479**
Accumulated depreciation and amortisation:										
At 1 January 2010	5,798	5,377	37,011	7,118	5,062	5,523	–	65,889	1,365	67,254
Exchange adjustments	–	–	–	(10)	–	(20)	–	(30)	–	(30)
Charge for the year	1,706	3,808	14,296	2,909	2,086	1,503	–	26,308	778	27,086
Written back on disposals	–	(5)	(174)	(607)	–	–	–	(786)	–	(786)
At 31 December 2010	7,504	9,180	51,133	9,410	7,148	7,006	–	91,381	2,143	93,524
At 1 January 2011	**7,504**	**9,180**	**51,133**	**9,410**	**7,148**	**7,006**	**–**	**91,381**	**2,143**	**93,524**
Exchange adjustments	**–**	**–**	**–**	**(12)**	**–**	**(14)**	**–**	**(26)**	**–**	**(26)**
Charge for the year	**2,102**	**5,231**	**17,556**	**3,976**	**2,106**	**4,141**	**–**	**35,112**	**792**	**35,904**
Written back on disposals	**–**	**–**	**(779)**	**(1,269)**	**–**	**–**	**–**	**(2,048)**	**–**	**(2,048)**
At 31 December 2011	**9,606**	**14,411**	**67,910**	**12,105**	**9,254**	**11,133**	**–**	**124,419**	**2,935**	**127,354**

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11 FIXED ASSETS (continued)

(a) The Group (continued)

	Buildings held for own use RMB'000	Leasehold improve-ments RMB'000	Equip-ment and machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Construc-tion in progress RMB'000	Sub-total RMB'000	Land use rights RMB'000	Total RMB'000
Impairment:										
At 1 January 2010	–	–	2,570	69	126	–	–	2,765	–	2,765
Charge for the year	–	–	–	–	–	–	–	–	–	–
Written back on disposals	–	–	–	–	–	–	–	–	–	–
At 31 December 2010	–	–	2,570	69	126	–	–	2,765	–	2,765
At 1 January 2011	**–**	**–**	**2,570**	**69**	**126**	**–**	**–**	**2,765**	**–**	**2,765**
Charge for the year	**–**	**–**	**1,016**	**–**	**–**	**–**	**–**	**1,016**	**–**	**1,016**
Written back on disposals	**–**	**–**	**(27)**	**(11)**	**–**	**–**	**–**	**(38)**	**–**	**(38)**
At 31 December 2011	**–**	**–**	**3,559**	**58**	**126**	**–**	**–**	**3,743**	**–**	**3,743**
Net book value:										
At 31 December 2011	**94,333**	**22,845**	**81,328**	**10,863**	**6,040**	**2,278**	**104,426**	**322,113**	**38,269**	**360,382**
At 31 December 2010	88,028	22,081	64,109	11,242	4,689	4,085	28,785	223,019	36,770	259,789

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11 FIXED ASSETS (continued)

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

	The Group	
	2011	2010
	RMB'000	RMB'000
In the PRC		
– medium-term leases	**132,602**	124,798
Representing:		
Buildings held for own use, carried at cost	**94,333**	88,028
Land use rights	**38,269**	36,770
	132,602	124,798

(c) As at 31 December 2011, buildings held for own use with net book value of RMB26,396,000 (2010: RMB27,185,000) have been pledged as security for a long term loan (see note 20(b)).

As at 31 December 2011, buildings held for own use with net book value of RMB9,880,000 (2010: Nil) have been pledged as security for a short term loan (see note 20(a)).

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12 INTANGIBLE ASSETS

The Group

	Diabetes technology RMB'000	Diabetes licence RMB'000	Trademark RMB'000	Capitalised development costs RMB'000	Orthopedics customer relationship RMB'000	Orthopedics licences RMB'000	Total RMB'000
Cost:							
At 1 January 2010	8,128	2,630	300	–	–	–	11,058
Additions through internal development	–	–	–	10,166	–	–	10,166
At 31 December 2010	8,128	2,630	300	10,166	–	–	21,224
At 1 January 2011	8,128	2,630	300	10,166	–	–	21,224
Acquisition of subsidiaries	–	–	–	–	9,279	34,692	43,971
Additions through internal development	–	–	–	31,804	–	–	31,804
At 31 December 2011	8,128	2,630	300	41,970	9,279	34,692	96,999
Accumulated amortisation and impairment:							
At 1 January 2010	717	232	86	–	–	–	1,035
Charge for the year	478	155	102	–	–	–	735
At 31 December 2010	1,195	387	188	–	–	–	1,770
At 1 January 2011	1,195	387	188	–	–	–	1,770
Charge for the year	478	155	103	–	77	241	1,054
Impairment losses	6,455	2,088	–	–	–	–	8,543
At 31 December 2011	8,128	2,630	291	–	77	241	11,367
Net book value:							
At 31 December 2011	–	–	9	41,970	9,202	34,451	85,632
At 31 December 2010	6,933	2,243	112	10,166	–	–	19,454

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12 INTANGIBLE ASSETS (continued)

Capitalised development cost primarily related to vascular devices business segment and the additions during the year include depreciation charge of RMB352,000 (2010: Nil).

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

The basis of impairment test for cash-generating units ("CGU") containing the Diabetes technology and licence is as follows:

The recoverable amount of the fore-mentioned CGU is determined based on value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares the cash flow forecasts derived from the 5-year financial budgets and extrapolates cash flows for the following 5 years based on an estimated weighted average growth rate in sales of 4.5% (2010: 5.4%), and a discount rate of 18% (2010: 18%).

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13 GOODWILL

The Group

	RMB'000
Cost:	
At 1 January 2010, 31 December 2010 and 1 January 2011	2,105
Additions (note 28)	64,466
At 31 December 2011	66,571
Accumulated impairment losses:	
At 1 January 2010, 31 December 2010 and 1 January 2011	–
Impairment loss	2,105
At 31 December 2011	2,105
Carrying amount:	
At 31 December 2011	64,466
At 31 December 2010	2,105

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's CGU identified according to country of operation and reportable segment as follows:

	2011 RMB'000	2010 RMB'000
Orthopedics devices business	**64,466**	–
Diabetes devices business	**–**	2,105
	64,466	2,105

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares the cash flow forecasts derived from the 5-year financial budgets and extrapolates cash flows for the following 5 years based on an estimated weighted average growth rates in sales of 4.5% (2010: 5.4%), and a discount rate of 18% (2010: 18%).

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14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**827,561**	545,404

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated:

Name of company	Place and date of incorporation/ establishment/ acquisition	Issued, fully paid up and registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activity
MP.B.V	The Netherlands, acquired on 4 September 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 15 May 1998	USD50,000,000	85.6	14.4	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, 28 April 2008	RMB45,000,000	–	100	Manufacturing, distribution, research and development of medical devices
MP Lifesciences Beijing (微創(北京)生命醫學科技有限公司)*	The PRC, acquired on 2 June 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, 18 May 2009	RMB45,000,000	–	100	Distribution, research and development of orthopedics devices

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14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ establishment/ acquisition	Issued, fully paid up and registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activity
Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司) *	The PRC, 31 August 2010	RMB45,000,000	–	100	Distribution, research and development of electrophysiology devices
Suzhou Best Medical Instruments Co., Ltd. ("Suzhou Best")(蘇州貝斯特醫療器械有限公司) *	The PRC, acquired on 29 November 2011	RMB8,000,000	–	100	Investment holding
Suzhou Health Medical Appliance Co., Ltd. ("Suzhou Best") (蘇州海歐斯醫療器械有限公司) *	The PRC, acquired on 29 November 2011	RMB827,703	–	100	Distribution, research and development of orthopedics devices

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

15 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group 2011 RMB'000	The Group 2010 RMB'000
Raw materials	**31,196**	51,596
Work in progress	**13,587**	16,093
Finished goods	**29,179**	16,927
	73,962	84,616

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15 INVENTORIES (continued)

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**125,196**	100,097
Write-down of inventories	**12,072**	2,005
Reversal of write-down of inventories	**–**	(3,897)
Cost of inventories sold	**137,268**	98,205
Cost of inventories directly recognised as research and development costs and distribution costs	**34,795**	25,696
	172,063	123,901

All inventories are expected to be recovered within one year.

16 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade debtors:				
– third party customers	**268,189**	198,042	**–**	–
– related parties (note 29(b))	**6,747**	6,373	**–**	–
	274,936	204,415	**–**	–
Less: Allowance for doubtful debts	**(2,336)**	(2,523)	**–**	–
	272,600	201,892	**–**	–
Other debtors	**7,021**	2,501	**5,368**	–
Amounts due from subsidiaries	**–**	–	**40**	10
Loans and receivables	**279,621**	204,393	**5,408**	10
Deposits and prepayments	**6,996**	5,525	**–**	–
	286,617	209,918	**5,408**	10

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

NOTES TO THE FINANCIAL STATEMENTS

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16 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	RMB'000
Current	**255,387**	199,321
Less than 1 month past due	**14,207**	2,075
1 to 3 months past due	**351**	186
More than 3 months past due	**2,655**	310
Amounts past due	**17,213**	2,571
	272,600	201,892

Trade receivables are due within 30 to 180 days from the date of billing. Further details of the Group's credit policy are set out in note 26(a).

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16 TRADE AND OTHER RECEIVABLES (continued)

(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(i)(i)).

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

	The Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**2,523**	2,551
Net impairment loss reversed	**–**	(28)
Uncollectible amounts written off	**(187)**	–
At 31 December	**2,336**	2,523

The Group's trade debtors of RMB2,336,000 (2010: RMB2,523,000) were individually determined to be impaired as at 31 December 2011. 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.

NOTES TO THE FINANCIAL STATEMENTS

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16 TRADE AND OTHER RECEIVABLES (continued)

(c) Trade debtors that are not impaired

At 31 December 2011 and 2010, all the trade debtors aged less than three months past due are not impaired.

These debtors related to a number of customers for whom there was no recent history of default or 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.

17 DEPOSITS WITH BANKS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with original maturities over three months	**315,000**	640,000	**300,000**	600,000
Pledged deposits	**4,279**	4,273	**–**	–
	319,279	644,273	**300,000**	600,000

Included in pledged deposits at 31 December 2011, RMB651,000 (2010: RMB651,000) was pledged as security for the long term loan from Shanghai Municipal Financial Administration ("SMFA") (note 20(b)). The remaining pledged deposits of RMB3,628,000 (2010: RMB3,622,000) are pledged for use of business credit cards in the PRC.

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,095,209**	928,053	**686,154**	800,229

As at 31 December 2011, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB466,534,000 (2010: RMB124,917,000). 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.

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18 CASH AND CASH EQUIVALENTS (continued)

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

	Note	2011 RMB'000	2010 RMB'000
Profit before taxation		**374,053**	295,156
Adjustments for:			
Depreciation	5(c)	**34,760**	26,308
Impairment loss on plant and machine	5(c)	**1,016**	–
Amortisation of land use rights	5(c)	**792**	778
Amortisation of intangible assets	5(c)	**1,054**	735
Impairment loss on intangible assets	5(c)	**8,543**	–
Impairment of goodwill	5(c)	**2,105**	–
Listing expenses	5(c)	**–**	17,146
Finance costs/(income)	5(a)	**934**	(8,576)
Interest income	4	**(32,117)**	(4,314)
Loss on sale of property, plant and machine	4	**118**	15
Equity-settled share-based payment expenses		**42,620**	20,837
Changes in working capital:			
Decrease/(increase) in inventories		**17,203**	(27,921)
Increase in trade and other receivables		**(70,997)**	(68,696)
(Decrease)/increase in trade and other payables		**(36,365)**	35,088
Increase/(decrease) in deferred income		**20,620**	(3,066)
Cash generated from operations		**364,339**	283,490

19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade payables	**39,478**	11,184	**–**	–
Other payables and accrued charges	**98,355**	84,064	**524**	12,997
Amounts due to subsidiaries	**–**	–	**22,268**	22,938
Dividends payable to ordinary shareholders	**861**	229	**861**	229
	138,694	95,477	**23,653**	36,164
Advances received	**2,590**	438	**–**	–
	141,284	95,915	**23,653**	36,164

All of the above balances are expected to be settled or recognised as income within one year.

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19 TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are trade payables with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	RMB'000
Due within 1 month or on demand	**32,009**	9,274
Due after 1 month but within 3 months	**6,583**	1,223
Due after 3 months but within 6 months	**886**	687
	39,478	11,184

20 SHORT-TERM AND LONG-TERM LOANS

As at 31 December 2011, the short-term and long-term loans were repayable as follows:

		The Group	
	Note	**2011**	2010
		RMB'000	RMB'000
Within 1 year			
– secured bank loan	*(a)*	**2,000**	–
– unsecured bank loan	*(a)*	**–**	50,000
– long-term loan (current portion)	*(b)*	**476**	462
		2,476	50,462
After 1 year but within 2 years	*(b)*	**491**	476
After 2 years but within 5 years	*(b)*	**1,566**	1,519
After 5 years	*(b)*	**1,136**	1,675
		3,193	3,670
		5,669	54,132

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20 SHORT-TERM AND LONG-TERM LOANS (continued)

(a) Bank loans

The Group's unsecured bank loan is at fixed interest rate of 4.779%.

The Group's secured bank loan is at fixed interest rate of 6.63%, and is secured by its fixed assets with the total net book values of RMB9,880,000 at 31 December 2011 (2010: nil) (see note 11(c)).

(b) Loan from SMFA

On 9 September 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 29 September plus 0.3 percent. Interest is paid annually. The actual interest paid during the year ended 31 December 2011 amounted to RMB117,000 (2010: RMB131,000).

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

In addition, the SMFA loan is secured by (i) the buildings held for own use with net book value of RMB26,396,000 at 31 December 2011 (2010: RMB27,185,000) (see note 11(c)); and (ii) deposits with banks of RMB651,000 at 31 December 2011 (2010: RMB651,000) (see note 17).

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 initially recognised as deferred income and subsequently recognised in profit or loss over the SMFA loan period, using the effective interest method.

The fair value of the SMFA loan at initial recognition amounted to RMB4,809,000. Besides the actual interest paid, additional interest expense of RMB128,000 (2010: RMB143,000) and related government grant income of RMB128,000 (2010: RMB143,000) were recognised in the consolidated income statement for the year ended 31 December 2011.

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21 EMPLOYEE RETIREMENT BENEFITS

(a) Defined contribution retirement plan

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The contributions are capitalised into cost of assets or charged to profit or loss on an accrual basis. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect. Contributions to the plan vest immediately.

22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Provision for PRC CIT for the year (Note)	**57,301**	78,269	**–**	7,826
Provisional tax paid (Note)	**(47,259)**	(61,244)	**–**	(7,826)
	10,042	17,025	**–**	–
Tax payable by the subsidiary outside of the PRC	**38**	80	**–**	–
	10,080	17,105	**–**	–
Balance of profits Tax provision relating to prior years	**(21)**	(164)	**–**	–
	10,059	16,941	**–**	–

Note: On 9 July 2010, MP Shanghai declared dividends in total amounting to RMB195,657,000, of which the entire amount was attributable to earnings generated since 1 January 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 RMB 19,566,000. The remaining 60% withholding tax was borne by another two subsidiaries who are the immediate equity holders of MP Shanghai.

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22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

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

(i) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Allowance For doubtful debts RMB '000	Provision for inventories RMB '000	Other provisions RMB '000	Intangible assets RMB '000	Withholding tax on retained profits of a PRC subsidiary RMB '000	Total RMB '000
Deferred tax arising from:						
At 1 January 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 31 December 2010	(384)	(1,180)	(8,364)	2,294	12,865	5,231
At 1 January 2011	**(384)**	**(1,180)**	**(8,364)**	**2,294**	**12,865**	**5,231**
Acquisition of subsidiaries	**–**	**–**	**–**	**12,513**	**–**	**12,513**
Charged/(credited) to profit or loss	**(34)**	**(851)**	**(861)**	**(2,382)**	**–**	**(4,128)**
At 31 December 2011	**(418)**	**(2,031)**	**(9,225)**	**12,425**	**12,865**	**13,616**

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22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax (assets)/liabilities recognised: (continued)

(ii) The Company

The components of deferred tax liabilities recognised in the Company's statement of financial position and the movements during the year are as follows:

	Withholding tax on retained profits of a PRC subsidiary RMB'000
Deferred tax arising from:	
At 1 January 2010	12,972
Credited to profit or loss	(7,826)
At 31 December 2010	5,146
At 1 January 2011	5,146
Credited to profit or loss	(5,146)
At 31 December 2011	–

(iii) Reconciliation to the statement of financial position

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Net deferred tax assets recognised in the statement of financial position	**(11,674)**	(9,928)	**–**	–
Net deferred tax liabilities recognised in the statement of financial position	**25,290**	15,159	**–**	5,146
	13,616	5,231	**–**	5,146

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22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group did not recognise deferred tax assets in respect of tax losses attributable to certain subsidiaries of RMB62,323,000 at 31 December 2011 (2010: RMB23,118,000), as the directors consider that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Majority of the tax losses were incurred by PRC subsidiaries and will expire in five years after they are incurred. At 31 December 2011, tax losses of RMB58,000, RMB4,409,000, RMB23,963,000 and RMB33,893,000 will expire on 31 December 2013, 2014, 2015 and 2016 respectively.

(d) Deferred tax liabilities not recognised

As at 31 December 2011, no deferred tax liability was recognised in respect of the temporary differences relating to the undistributed profits of a PRC subsidiary amounting to RMB544,580,000 (2010: RMB273,618,000), as the Group controls the dividend policy of this subsidiary and has determined that such profits will not be distributed in the foreseeable future.

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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 1 January 2010	23,142	740	23,882
Additions during the year	4,356	–	4,356
Government grant recognised as other revenue	(7,279)	(143)	(7,422)
At 31 December 2010	20,219	597	20,816
At 1 January 2011	**20,219**	**597**	**20,816**
Additions during the year	**26,815**	**–**	**26,815**
Government grant recognised as other revenue	**(761)**	**(128)**	**(889)**
At 31 December 2011	**46,273**	**469**	**46,742**

	2011 RMB'000	2010 RMB'000
Represented by:		
Current portion	**114**	128
Non-current portion	**46,628**	20,688
	46,742	20,816

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.

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24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 3 September 2010, the Company approved a 10-for-1 share split (the "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. Accordingly, the number of share options and exercise price information presented below in respect of the share option plans have been adjusted retrospectively to reflect the 10-for-1 share split effect as if the Share Split had occurred at the beginning of the years presented.

(a) The 2004 share option plan

On 20 February 2004, MicroPort Medical (Cayman) Corporation ("MP Cayman"), the intermediate holding company of MP Shanghai prior to the reorganisation completed on 31 December 2006 (the "Reorganisation"), adopted in 2004 Stock Option Plan (the "2004 Option Plan") pursuant to which MP Cayman may grant up to 102,610,300 share options to the employees, executives and external consultants of MP Shanghai.

During 2004 and 2005, MP Cayman granted a total of 102,610,300 share options to the executives, employees and external consultants at the exercise prices ranging from nil to HK$0.11057 and US$0.038 (equivalent to RMB0.314). An aggregate of 88,692,450 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 Reorganisation when the ordinary shares of MP Cayman were exchanged for the Company's ordinary shares on a one-for-one basis.

On 10 January 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 13,917,850 outstanding share options of MP Cayman 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
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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	10,097,600	Vested immediately on grant date	10 years
Options granted to two executives (Note)	3,820,250	Vested one to two years from the modification date	8 years and 9 months
Total share options granted	13,917,850		

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:

	2011		2010	
	Weighted average exercise price RMB	**Number of options**	Weighted average exercise price RMB	Number of options
Outstanding at the beginning of the year	**0.13**	**10,097,600**	0.13	10,097,600
Exercised during the year	**0.21**	**(700,000)**	–	–
Outstanding at the end of the year	**0.13**	**9,397,600**	0.13	10,097,600
Exercisable at the end of the year	**0.13**	**9,397,600**	–	–

All the above share options outstanding are exercisable one year after the consummation of an IPO of the Company.

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24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The 2006 and 2010 share option plans

On 26 August 2006, the Company adopted 2006 Share Incentive Plan (the "2006 Option Plan"), under which the board of directors authorised, 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.

On 3 September 2010, the Company adopted 2010 Share Option Scheme (the "2010 Option Plan"), under which the board of directors authorised, at their discretion, the issuance of share options to the directors, employees or business associates who the board of directors considers have contributed or will contribute to the Company. Each option gives the holder the right to subscribe for one ordinary share of the Company.

(i) The terms, conditions and fair values of the grants are as follows:

	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Weighted average exercise price RMB (Note)
Options granted to executives on:				
2 March 2007	36,353,620	41,372	1.14	1.49
2 April 2007	1,450,000	1,180	0.81	2.13
14 June 2007	500,000	234	0.47	2.34
25 June 2008	3,700,000	2,273	0.61	2.09
1 December 2008	4,200,000	4,020	0.96	2.10
21 October 2009	6,000,000	8,238	1.37	2.09
9 July 2010	28,648,730	53,101	1.85	2.08
9 August 2010	5,000,000	10,882	2.18	2.07
	85,852,350	121,300		

The above share options are vested in instalments 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 instalment 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 14 June 2007, 25 June 2008 and 1 December 2008 has been adjusted to reflect the change of exercise price approved on 9 March 2010 (note 24(b)(iii)). The weighted average exercise prices in respect of these grants before the change of exercise price were RMB3.24, RMB2.90 and RMB2.91 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
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24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The 2006 and 2010 share option plans (continued)

(i) The terms, conditions and fair values of the grants are as follows: (continued)

	Number of options	Fair value	Weighted average fair value per share option	Weighted average exercise price
		RMB'000	RMB	RMB
Options granted to employees on:				
23 April 2007	7,500,000	6,115	0.82	2.13
6 February 2009	250,000	232	0.93	2.91
8 July 2010	1,230,940	2,462	2.00	2.08
17 October 2011	500,000	863	1.73	3.92
1 November 2011	750,000	1,171	1.56	3.64
	10,230,940	10,843		

The above share options were granted to 529 employees and are vested in instalments over an explicit vesting period of four to seven 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 instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is from the employment commencement date to 1 March 2013, 5 February 2015, 7 July 2020, 16 October 2021 and 31 October 2021 for the options granted on 23 April 2007, 6 February 2009, 8 July 2010, 17 October 2011 and 1 November 2011 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The 2006 and 2010 share option plans (continued)

(i) The terms, conditions and fair values of the grants are as follows: (continued)

	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Weighted average exercise price RMB (Note)
Options granted to consultants on:				
17 May 2007	1,500,000	747	0.50	2.35
14 June 2007	500,000	255	0.51	2.34
	2,000,000	1,002		
Total options granted	98,083,290	133,145		

The above share options are vested in instalments 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 instalment 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 14 June 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 17 May 2007 and 14 June 2007 has been adjusted to reflect the change in exercise price approved on 9 March 2010 (note 24(b)(iii)). The weighted average exercise prices in respect of these grants before the change of exercise price were RMB3.26 and RMB3.24 respectively.

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For the year ended 31st December 2011
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24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The 2006 and 2010 share option plans (continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price RMB	**Number of options**	Weighted average exercise price RMB	Number of options
Outstanding at the beginning of the year	**1.62**	**56,124,020**	2.75	25,546,180
Granted during the year	**3.75**	**1,250,000**	2.08	34,879,670
Exercised during the year	**1.91**	**(2,759,520)**	1.80	(4,033,790)
Forfeited during the year	**1.96**	**(3,133,930)**	1.88	(268,040)
Outstanding at the end of the year (note)	**1.95**	**51,480,570**	1.62	56,124,020
Exercisable at the end of the year (note)	**1.88**	**19,972,670**	2.67	10,506,440

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

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from March 2013 through October 2021. As at 31 December 2011, the weighted average remaining contractual life for the share options granted under the 2006 and 2010 share option plans was 7.60 years (2010: 8.45 years).

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

On 9 March 2010, the Board approved a modification to the 2006 Option Plan, to reduce the exercise price from USD0.425 to USD0.3062 for the share options granted on 17 May 2007, 14 June 2007, 25 July 2008 and 1 December 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 recognised as equity-settled share-based payment expenses over the remaining vesting period.

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For the year ended 31st December 2011
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24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The 2006 and 2010 share option plans (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 tree 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 tree model.

Fair value of share options and assumptions	**2011**	2010
Fair value at measurement dates	**HK$1.59 to HK$2.38**	HK$1.90 to HK$2.70
Share price	**HK$4.47 to HK$4.79**	HK$3.86 to HK$4.33
Exercise price	**HK$4.47 to HK$4.79**	HK$2.38
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**49.55% to 49.73%**	54.7% to 54.9%
Option life	**10 years**	10 years
Suboptimal exercise factor	**1.5**	1.5
Expected dividend yield	**1.25%**	0.83% to 1.17%
Average risk-free interest rate	**1.39% to 1.43%**	2.20% to 2.34%
Forfeiture rate	**0%**	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 and 2011, 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.

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For the year ended 31st December 2011
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24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Share award scheme

In 2011, the Board approved a share award scheme. Under this share award scheme, the Company may grants shares of the Company to executives at nil consideration. The consideration paid for the purchase of the Company's shares of RMB14,925,000 is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

The fair value of the grants under the share award scheme is as follows:

	Number of shares granted '000	Fair value RMB'000
Options granted to executives on:		
26 December 2011	**4,808**	**15,425**

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

	2011 RMB'000	2010 RMB'000
Research and development costs	**17,665**	3,334
Distribution costs	**9,019**	9,376
Administrative expenses	**12,309**	8,127
Cost of sales	**1,678**	–
Other operating expenses	**1,449**	–
	42,120	20,837
Represented by:		
Staff costs (note 5(b))	**42,088**	20,817
Cost of employing consultants	**32**	20
	42,120	20,837

The share options under the 2004 Modified Plan, the 2006 Option Plan, the 2010 Option Plan and the share award scheme were granted to executives, employees and external consultants of MP Shanghai. Accordingly, the compensation expense was reflected as equity-settled share-based payment expenses with a corresponding increase in the capital reserve of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

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)	Capital redemption reserve RMB'000	Exchange reserve RMB'000 Note 25(d)(ii)	Capital reserve RMB'000 Note 25(d)(iii)	Retained profits RMB'000	Total RMB'000
At 1 January 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(d)*	–	–	–	–	20,837	–	20,837
Shares issued under the share option plans	*25(c)(iv)*	–	10,923	–	–	(3,682)	–	7,241
Issuance of shares for initial public offering	*25(c)(i)(3)*	20	1,529,878	–	–	–	–	1,529,898
Share issuance costs	*25(c)(i)(3)*	–	(89,997)	–	–	–	–	(89,997)
Conversion of redeemable convertible preference shares	*25(c)(i)(4)*	1	64,733	–	–	–	–	64,734
At 31 December 2010		110	1,532,435	–	(6,305)	24,505	353,588	1,904,333

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(a) Movements in components of equity (continued)

	Note	Share capital RMB'000 Note 25(c)(i)	Share premium RMB'000 Note 25(d)(i)	Capital redemption reserve RMB'000	Exchange reserve RMB'000 Note 25(d)(ii)	Capital reserve RMB'000 Note 25(d)(iii)	Retained profits RMB'000	Total RMB'000
At 1 January 2011		110	1,532,435	–	(6,305)	24,505	353,588	1,904,333
Changes in equity for 2011:								
Profit for the year		–	–	–	–	–	66,427	66,427
Other comprehensive income		–	–	–	(61,233)	–	–	(61,233)
Total comprehensive income		–	–	–	(61,233)	–	66,427	5,194
Dividends approved in respect of the previous year	*25(b)(ii)*	–	–	–	–	–	(60,042)	(60,042)
Equity-settled share-based transactions	*24(d)*	–	–	–	–	26,695	–	26,695
Shares issued under the share option plans	*25(c)(iv)*	–	8,485	–	–	(3,118)	–	5,367
Purchase of own shares	*25(c)(iii)*							
– par value paid		(1)	–	–	–	–	–	(1)
– premium paid		–	–	–	–	–	(86,576)	(86,576)
– transfer between reserves		–	–	1	–	–	(1)	–
Shares purchased under share award scheme	*24(c)*	–	–	–	–	(14,925)	–	(14,925)
Shares granted under share award scheme	*24(c)*	–	–	–	–	15,425	–	15,425
At 31 December 2011		109	1,540,920	1	(67,538)	48,582	273,396	1,795,470

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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

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

	2011 **RMB'000**	2010 RMB'000
Final dividend proposed after the end of the reporting period HK$7cents (equivalent to RMB6 cents) per ordinary share (2010: HK$5 cents (equivalent to RMB4 cents) per ordinary share)	**80,969**	60,042

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2011 **RMB'000**	2010 RMB'000
Dividends in respect of the previous financial year, approved during the year, of HK$5 cents (equivalent to RMB4 cents) per share (2010: US$2.28 cents (equivalent to RMB15.47 cents) per share)	**60,042**	173,571

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

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

	2011 **RMB'000**	2010 RMB'000
Final dividend in respect of the previous financial year, approved during the year, of HK$nil cents (2010: US$5.85 cents (equivalent to RMB40 cents) per share)	**–**	4,888

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 included in finance costs (note 5(a)) in profit or loss.

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For the year ended 31st December 2011
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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

(i) Ordinary shares

	2011		2010	
	No. of shares '000	Amounts RMB'000	No. of shares '000	Amounts RMB'000
Authorised:				
Ordinary shares of USD0.00001 each	**4,987,702**	**397**	4,987,702	397
Ordinary shares, issued and fully paid:				
At 1 January	**1,442,023**	**110**	1,135,040	89
Shares issued under share option schemes (note 25(c)(iv))	**3,460**	**–**	4,034	–
Repurchase of shares (note 25(c)(iii))	**(25,000)**	**(1)**	–	–
Issuance of shares for placing and initial public offering (note 25(c)(i)(3))	**–**	**–**	290,651	20
Conversion of Preference Shares (note 25(c)(i)(4))	**–**	**–**	12,298	1
At 31 December	**1,420,483**	**109**	1,442,023	110

(1) On 3 September 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 number of share and related per share information have been retrospectively adjusted to reflect the 10-for-1 share split effect as if the share split 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.

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For the year ended 31st December 2011
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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(i) Ordinary shares (continued)

(3) On 24 September 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 27 September 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.

(4) On 24 September 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 24 September 2010 of RMB64,734,000 (par value of US$0.00001) was credited to equity upon conversion.

(ii) Preference Shares

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 then shareholder of MP Shanghai, on 21 August 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
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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) 23 February 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 9 March 2010, the Company's Articles of Association were amended to extend the definition of a qualified IPO in (i) above to include an IPO in a stock exchange in Hong Kong.

(4) Liquidation preference

On a distribution of assets of the Company on a winding up or other return of capital (other than on a redemption or repurchase of shares), the 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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2011
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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(ii) Preference Shares (continued)

The Preference Shares were recognised as financial liabilities stated at fair value through profit or loss when the Preference Shares were issued as part of the Group's Reorganisation. 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 24 September 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 24 September 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 5(a)).

Dividends declared and payable to the holder of Preference Shares are included in finance costs.

(iii) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	No. of shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregate price paid RMB'000
September 2011#	**8,435,000**	**3.31**	**3.05**	**26,646**
October 2011#	**10,065,000**	**3.84**	**3.23**	**36,542**
November 2011#	**6,500,000**	**3.91**	**3.25**	**23,389**
				86,577
September 2011 (see note 24(c))	**4,808,000**	**3.31**	**3.05**	**14,925**
				101,502

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the par value of the shares cancelled of RMB1,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB86,576,000 was charged to retained profits.

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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(iv) Shares issued under the share option plans

Shares issued under the share option schemes, after the effect of the Share Split, during the year are summarised as follows:

	No. of share options exercised	Considera-tion	Credited to/(transferred from) Share capital	Share premium	Capital reserve
		RMB'000	RMB'000	RMB'000	RMB'000
Options exercised in:					
January 2010	13,200	25	–	36	(11)
February 2010	32,180	60	–	86	(26)
March 2010	86,350	162	–	232	(70)
April 2010	883,220	1,817	–	2,609	(792)
May 2010	1,722,710	2,594	–	4,508	(1,914)
June 2010	1,296,130	2,583	–	3,452	(869)
For the year ended 31 December 2010	4,033,790	7,241	–	10,923	(3,682)
March 2011	**17,500**	**31**	**–**	**45**	**(14)**
April 2011	**298,950**	**538**	**–**	**782**	**(244)**
May 2011	**164,530**	**294**	**–**	**428**	**(134)**
June 2011	**66,610**	**119**	**–**	**173**	**(54)**
July 2011	**209,840**	**398**	**–**	**699**	**(301)**
August 2011	**373,490**	**726**	**–**	**1,303**	**(577)**
September 2011	**1,467,440**	**2,328**	**–**	**3,457**	**(1,129)**
October 2011	**155,000**	**34**	**–**	**52**	**(18)**
November 2011	**692,760**	**876**	**–**	**1,512**	**(636)**
December 2011	**13,400**	**23**	**–**	**34**	**(11)**
For the year ended 31 December 2011	**3,459,520**	**5,367**	**–**	**8,485**	**(3,118)**

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25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(v) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price RMB	2011 Number of options	2010 Number of options
24 September 2011 to 19 February 2014	0.06 to 0.19	**9,397,600**	10,097,600
26 April 2007 to 24 January 2017	0.98 to 2.13	**3,268,340**	3,305,720
23 September 2008 to 22 September 2017	2.34	**500,000**	500,000
25 July 2009 to 24 July 2018	2.09	**1,925,000**	2,000,000
23 June 2009 to 31 December 2018	2.10	**1,700,000**	4,200,000
9 October 2010 to 20 October 2019	2.09	**6,000,000**	6,000,000
9 July 2011 to 8 July 2020	2.08	**26,523,730**	28,648,730
9 August 2011 to 8 August 2020	2.07	**5,000,000**	5,000,000
23 April 2007 to 1 March 2013	2.13	**2,549,000**	3,488,630
6 February 2010 to 5 February 2015	2.91	**250,000**	250,000
8 July 2011 to 7 July 2020	2.08	**1,014,500**	1,230,940
16 May 2008 to 30 June 2017	2.35	**1,000,000**	1,000,000
24 September 2011 to 23 September 2020	2.34	**500,000**	500,000
17 October 2012 to 16 October 2021	3.92	**500,000**	–
1 November 2012 to 31 October 2021	3.64	**750,000**	–
		60,878,170	66,221,620

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) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of entities outside the PRC. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

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For the year ended 31st December 2011
(Expressed in Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(iii) Capital reserve

Capital reserve represents the fair value of the actual or estimated number of unexercised share options or shares granted to executives, employees and external consultants of the Group in accordance with the accounting policy adopted for share-based payments in note 1(p)(ii).

In addition, the capital reserve also includes the consideration paid for the purchase of the Company's shares under the share award scheme (see note 24(c)).

(iv) Statutory general reserve

The PRC subsidiaries of the Company are required to make appropriation of its retained profits 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 utilised to offset prior year's losses or converted into paid up capital.

(e) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was RMB1,814,316,000 (2010: RMB1,886,023,000). After the end of the reporting period the directors proposed a final dividend of HK$7 cents per ordinary share (2010: HK$5 cents per share), amounting to RMB80,969,000 (2010: RMB60,042,000) (note 25(b)). This dividend has not been recognised as a liability at the end of the reporting period.

(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 and long-term loans (including the current portion), less unaccrued proposed dividends. On this basis, the amount of capital employed at 31 December 2011 was RMB2,037,855,000 (2010: RMB1,914,769,000).

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.

NOTES TO THE FINANCIAL STATEMENTS

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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. 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.

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 the end of the reporting period, 28% (2010: 27%) and 62% (2010: 63%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

(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:

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For the year ended 31st December 2011
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26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

(i) The Group

	2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Loans	**2,645**	**590**	**1,770**	**1,190**	**6,195**	**5,669**
Trade and other payables	**141,284**	**–**	**–**	**–**	**141,284**	**141,284**
	143,929	**590**	**1,770**	**1,190**	**147,479**	**146,953**

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Loans	50,696	681	1,951	1,825	55,153	54,132
Trade and other payables	95,915	–	–	–	95,915	95,915
	146,611	681	1,951	1,825	151,068	150,047

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For the year ended 31st December 2011

(Expressed in Renminbi unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

(ii) The Company

	2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Trade and other payables	**23,653**	**–**	**–**	**–**	**23,653**	**23,653**

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Trade and other payables	36,164	–	–	–	36,164	36,164

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks and loans. Loans at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and loans issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

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For the year ended 31st December 2011
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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 loans and deposits at the end of the reporting period:

	2011		2010	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Net fixed rate instruments:				
Deposits with banks	**3.05%**	**315,000**	2.06%	640,000
Bank loans	**6.63%**	**(2,000)**	4.78%	(50,000)
		313,000		590,000
Net variable rate instruments:				
Cash at banks	**0.50%**	**1,095,194**	0.36%	928,053
Deposits with banks	**0.50%**	**4,279**	0.36%	4,273
SMFA loan (see note 20)	**6.57%**	**(3,669)**	6.75%	(4,132)
		1,095,804		928,194
Net fixed rate instruments as a percentage of total net instruments		**22.2%**		38.9%

(ii) Sensitivity analysis

At 31 December 2011, 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 profits by approximately RMB10,479,000 (2010: RMB8,653,000).

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

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For the year ended 31st December 2011
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26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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$") and; (ii) IPO proceeds received by the Company were in Hong Kong dollars and were mostly exchanged into RMB or US$. 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.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised 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 year end date. Differences resulting from the translation of the financial statements of entities outside the PRC into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in RMB)			
	2011		2010	
	US$	**RMB**	US$	RMB
	RMB'000	**RMB'000**	RMB'000	RMB'000
Trade and other receivables	**13,737**	**5,133**	22,430	–
Cash and cash equivalents	**218,846**	**670,928**	2,788	484,118
Deposits with banks	**–**	**300,000**	–	600,000
Trade and other payables	**(1,302)**	**(35)**	(720)	–
Amounts due from/(to) group companies	**–**	**(18,046)**	128	(878)
Amounts due from related parties	**6,747**	**–**	6,373	–
Net exposure arising from recognised assets and liabilities	**238,028**	**957,980**	30,999	1,083,240

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For the year ended 31st December 2011
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26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies	
	2011	2010
	RMB'000	RMB'000
Trade and other receivables	**5,133**	–
Cash and cash equivalents	**670,928**	484,118
Deposits with banks	**300,000**	600,000
Trade and other payables	**(35)**	–
Amounts due to group companies	**(18,046)**	(878)
Net exposure arising from recognised assets and liabilities	**957,980**	1,083,240

(ii) Sensitivity analysis

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

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
US$ (against RMB)	**3%**	**6,070**	3%	790
	(3)%	**(6,070)**	(3)%	(790)
RMB (against US$)	**3%**	**28,739**	3%	32,497
	(3)%	**(28,739)**	(3)%	(32,497)

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 after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

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26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis (continued)

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 end of the reporting period, 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 entities outside the PRC into the Group's presentation currency. The analysis has been performed on the same basis for 2010.

(e) Fair values

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

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

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

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

As disclosed in note 25(c)(ii) to these financial statements, the Company's Preference Shares are measured at fair value at the end of the reporting period and prior to their automatic conversion. The fair value of the Preference Shares was determined based on certain 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 24 September 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 which was credited to profit or loss as finance income for the year ended 31 December 2010.

All other financial instruments which carried at cost or amortised cost are at amounts not materially different from their fair values at 31 December 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

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27 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2011 not provided for in the financial statements are as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Contracted for	**90,160**	77,016
Authorised but not contracted for	**–**	84,889
	90,160	161,905

(b) Operating lease commitments

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**3,735**	1,242
After 1 year but within 5 years	**3,417**	119
	7,152	1,361

The Group leases a number of properties and plants 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 31 December 2011 and 2010.

28. ACQUISITION OF SUBSIDIARIES

On 29 November 2011, the Group acquired 100% equity interest in Suzhou Best Medical Instruments Co., Ltd. ("Suzhou Best") and its wholly owned subsidiary, Suzhou Health Medical Appliance Co., Ltd. ("Suzhou Health"). Suzhou Best and Suzhou Health are principally engaged in manufacturing and sales of orthopedics products. Consideration for this acquisition is RMB110,000,000 in cash and RMB94,000,000 has been paid as at 31 December 2011.

In 2011, Suzhou Best and Suzhou Health contributed revenue of RMB1,462,000 and loss of RMB2,784,000 to the Group's results. Had Suzhou Best and Suzhou Health been consolidated from 1 January 2011, the consolidated statement of comprehensive income would have included revenue of RMB14,811,000 and loss of RMB4,388,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

NOTES TO THE FINANCIAL STATEMENTS

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28. ACQUISITION OF SUBSIDIARIES (continued)

Effect of acquisition:

	Pre-acquisition carrying amounts on 29 November 2011 RMB '000	Fair value adjustment RMB '000	Recognised values on acquisition RMB '000
Property, plant and equipment	13,105	4,369	17,474
Intangible assets	–	43,971	43,971
Cash and cash equivalents	726	–	726
Trade and other receivables	1,002	–	1,002
Inventories	6,549	–	6,549
Land use rights	578	1,713	2,291
Short-term loan	(2,000)	–	(2,000)
Trade and other payables	(11,966)	–	(11,966)
Deferred tax liability	–	(12,513)	(12,513)
Net identifiable assets and liabilities	7,994	37,540	45,534
Goodwill			64,466
Cash consideration			110,000
Cash acquired			(726)
Net cash outflow in year 2011			93,274
Net cash outflow in year 2012			16,000
			109,274

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their fair values which were determined by the directors of the Company based on a valuation report issued by Jones Lang LaSalle Sallmanns, an independent valuer.

The goodwill is attributable to the synergies expected to be achieved from leveraging the Group's existing technology in orthopedics devices and sales force, and integrating Suzhou Health's orthopedics business into the Group's existing orthopedics devices segment.

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29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid individuals as disclosed in note 8, is as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**8,760**	6,049
Discretionary bonuses	**6,237**	5,879
Retirement scheme contributions	**152**	55
Equity-settled share-based payment expenses	**21,027**	12,801
	36,176	24,784

Total remuneration was included in staff costs (note 5(b)).

(b) Sales to related parties

For the year ended 31 December 2011 and 2010, the Group has entered into sales transactions with the following 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

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29 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Sales to related parties (continued)

Particulars of the Group's sales transactions with these parties are as follows:

	2011 RMB'000	2010 RMB'000
Sales to:		
JIMRO	**3,032**	3,539
Thai Otsuka	**9,281**	8,104
Otsuka Philippines	**5,148**	3,858
Otsuka Indonesia	**5,006**	3,998
Otsuka Pakistan	**4,194**	5,041
	26,661	24,540

The selling prices of the above transactions are determined with reference to amounts charged by the Group to third parties.

	The Group	
	2011 RMB'000	2010 RMB'000
Trade receivables from:		
JIMRO	**1,375**	1,853
Thai Otsuka	**1,575**	1,870
Otsuka Philippines	**1,182**	1,143
Otsuka Indonesia	**1,337**	603
Otsuka Pakistan	**1,278**	904
	6,747	6,373

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

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30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2011, 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 in Japan. Otsuka Holdings Co., Ltd. produces financial statements available for public use and Otsuka Pharmaceutical does not.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 company's results of operations and financial position.

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