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)

2013 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang *(Chairman of the Board and Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Ganjin Chen

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Yee Har Susan Lo, *FCS (PE), FCIS*

AUTHORIZED REPRESENTATIVES

Dr. Zhaohua Chang
Ms. Yee Har Susan Lo

AUDIT COMMITTEE

Mr. Jonathan H. Chou *(Chairman)*
Mr. Norihiro Ashida
Mr. Zezhao Hua

REMUNERATION COMMITTEE

Dr. Guoen Liu *(Chairman)*
Dr. Zhaohua Chang
Mr. Jonathan H. Chou

NOMINATION COMMITTEE

Mr. Zezhao Hua (*Chairman)*
Mr. Ganjin Chen
Dr. Guoen Liu

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 54
Hopewell Centre
183 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

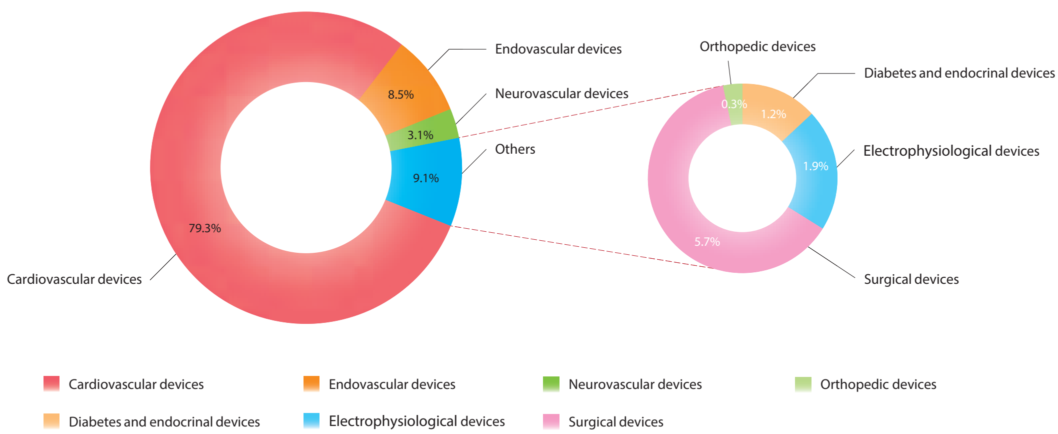
Bank of China (Hong Kong) Limited
China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
China CITIC Bank Shanghai Zhangjiang Sub-Branch
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

FINANCIAL SUMMARY

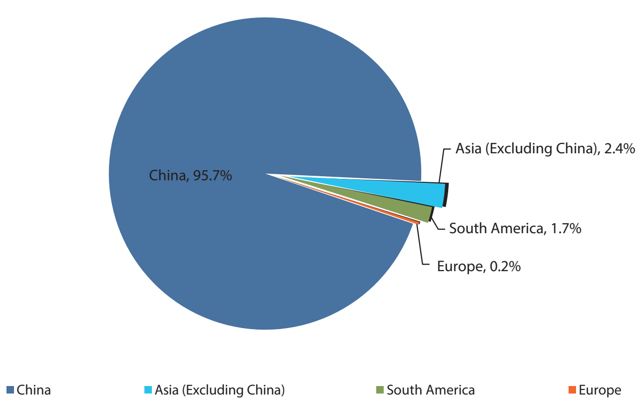
	Financial year ended		
	2013 RMB'000	2012 RMB'000	Change %
Revenue	938,682	930,962	0.83
Gross profit	760,564	777,833	-2.22
Profit for the year	148,531	353,980	-58.04
Earnings per share –			
Basic (RMB)	0.11	0.25	-56.00
Diluted (RMB)	0.10	0.25	-60.00

Revenue Analysis

By product

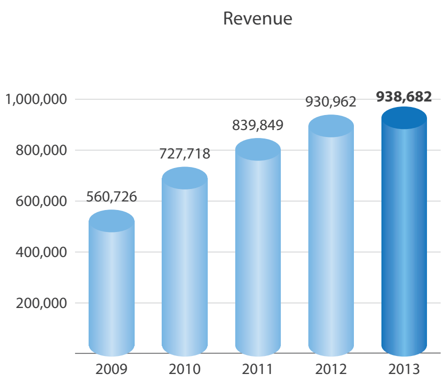


By Geographical region



FIVE YEARS FINANCIAL SUMMARY

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Assets					
Non-current assets	1,327,059	1,061,912	569,132	306,782	227,557
Current assets	1,816,323	1,605,968	1,775,067	1,866,860	484,301
Total assets	3,143,382	2,667,880	2,344,199	2,173,642	711,858
Liabilities					
Current liabilities	472,540	204,571	153,933	163,446	261,411
Non-current liabilities	305,443	143,430	75,111	39,517	62,754
Total liabilities	777,983	348,001	229,044	202,963	324,165
Total equity	2,365,399	2,319,879	2,115,155	1,970,679	387,693



OUR COMPANY

MicroPort is making the world a better place one patient at a time. In fact, for every 20 seconds that pass, on average, one patient somewhere in the world has lifesaving, or quality of life improving medical intervention, using MicroPort products.

Our company is all about improving human life through the practical application of innovative science. And our aim is to continually develop leading technologies and products for physicians, with life-saving solutions and treatments for patients. We are a young company with an ambition to establish MicroPort as a globally recognised brand name. Yet as the business grows, we strive to retain our unique entrepreneurial spirit. We continue to demonstrate entrepreneurial achievement and innovation coupled with our commitment to improving the social wellbeing.

We work in close cooperation with recognized international physicians and scientists worldwide, to develop a range of products that meet the highest quality and clinical standards. We develop, and produce an ever diversifying portfolio of products cover a wide range of business segments including Cardiovascular Devices, Orthopedic Devices, Diabetes Care and Endocrinal Management, Electrophysiological Devices, Endovascular Devices, Neurovascular Devices, Surgical Management and others. We are dedicated to make a patient oriented global enterprise focusing on minimally invasive and other emerging medical technologies.

Our products touch the lives of many people every day and we take this important responsibility very seriously. We are proud that MicroPort products will always achieve the highest standards of quality and ensure improved health for the patient. We know our products offer hope and relief to many people around the world, and every one of our employees takes personal responsibility to achieve our vision.

Today our products are used to save lives and improve patient health in hospitals throughout China and we export our products to regions all over the world, including America and Europe. Our company has a large and growing intellectual property portfolio and the strongest research and development team in China's medical device sector.

The applied expertise of our R&D team ensures our latest products are always innovative, as we strive to provide state of the art medical technologies and deliver the next generation of medical devices and treatments for chronic ailments. Central to this innovative approach is the inspiration provided by nature and our appreciation for the beauty of human biology.

And it is our commercial achievements which enable us to give something back to the society which makes our success possible. Our commitment to social engagement and responsibility is an important aspect of our company culture and philosophy. MicroPort works diligently to build strong relationships with all our international partners and all our stakeholders, because as a corporation, we think our community is an essential part of our business, and we strive to help in the best ways we can.

OUR VISION

"Dedicated People Striving to Make a Patient Oriented Global Enterprise Focusing on Minimally Invasive and Other Emerging Medical Technologies"

OUR MISSION

"To Improve longerity and quality of life by constant innovation and commercializing the best and most affordable therapeutic solutions"

CHAIRMAN'S STATEMENT

Dr. Zhaohua Chang
Chairman

2013 was an exciting year for our Company. We stepped forward on our way to diversification and internationalization and great achievements have been made in the memorable year of 2013.

After 8 years in house development, Firehawk® drug-eluting stent ("DES") ("Firehawk"), our third generation internally developed coronary stent, was approved by China Food and Drug Administration ("CFDA") for its launch in the domestic market. And our Firebird serial DES has maintained the leading position in the Chinese medical devices marketing for 9 consecutive years despite the fierce competition and the tough market conditions.

In June 2013, we announced to the public the acquisition of the OrthoRecon business from Wright Medical Group, Inc. (NASDAQ:WMGI) ("Wright Medical"). In January 2014, we announced the completion of the very significant acquisition and established MicroPort Orthopedics as the sixth largest multinational hip and knee orthopedic reconstruction business in the World. Currently, the acquisition also represented the largest overseas M&A project in the domestic medical devices industry and it is a big step forward for the Chinese medical devices industry. More importantly, millions or tens of millions of Chinese elderly patients will be benefited by the high quality products with lower prices to improve their quality of life more effectively.

Our Cardiac Rhythm Management ("CRM") welcomed a development opportunity. We entered into a definitive agreement with Sorin Group (Reuters Code: SORN.MI) ("Sorin") to form a joint venture to market and develop CRM devices in China. We expect to leverage complementary strengths of both companies to quickly penetrate the fast growing CRM market in China.

If year of 2013 is the year of harvest, then 2014 will be a cultivation year. We cultivate what we have achieved with a clear business strategy, solid action plan, free and adventurous spirit, an innovative mentality and hardworking ethics. China is always the key growth driver for our expansion overseas. In the coming 2014, we will strive to expand our domestic market share while maintaining our leading position in the Chinese medical device market. We have many advantages over competitors. Our reputation, brand recognition, mature distribution network and more suitable products for Chinese are important values for our success.

Furthermore, a regional management mechanism will be introduced to our Company to meet the management requirement after the acquisition of OrthoRecon business from Wright Medical. Two geographically distinctive operational units which are Greater China and Inter-continental managed by Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC"), respectively, are set up to manage the daily business. A generalized globalization of multi-points and multi-centers is what we expect to build up in future.

Looking forward to 2014, we have a big job to do and a long way to go. However, I am confident in our people and looking forward to our future. There's no doubt that with our wisdom and efforts, we will continue to be a very responsible medical device company to better serve our community and benefit millions of patient.

Dr. Zhaohua Chang
Chairman

Shanghai, 31 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

OVERVIEW

We are a leading medical technology company that develops, manufactures and sells high-end interventional medical devices in the People's Republic of China (the "PRC"). MicroPort currently represents the primary operation of the business, with interests in innovating, manufacturing, and marketing high quality and yet still affordable high-end medical devices. An ever diversifying portfolio of products, now being used at an average rate of one for every 20 seconds in over 2,000 major hospitals throughout China and around 30 other countries in the Asia Pacific region (excluding the PRC), South America and Europe, cover a wide spectrum of disease types such as cardiovascular, neurovascular, endovascular, EP, orthopedic, surgical management, diabetes care and endocrinal management. MicroPort is dedicated to becoming a leading China-based global enterprise capable of providing the best medical device products that are affordable and globally accessible to as many patients as possible.

On 10 January 2014, we completed the acquisition of OrthoRecon business from Wright Medical. The acquisition established MicroPort Orthopedics as the sixth largest multinational hip and knee orthopedic reconstruction business. The acquisition currently also represented the largest overseas M&A project in the Chinese medical devices industry. It is an opportunity for us to build upon 60 years of innovative leadership in the hip and knee industry of the Wright Medical OrthoRecon business to expand our orthopedics business segment and establish as a worldwide provider of effective and affordable orthopedics management solutions.

The number of products for sale increased from 92 as of 31 December 2012 to 205 (37 products of which acquired from Wright Medical was included) after the acquisition of OrthoRecon business from Wright Medical. On 28 January 2014, Firehawk, our third generation internally developed coronary stent was approved for market launch by CFDA. Firehawk is the World's first and only target eluting stent ("TES") which has received CFDA approval. In the Chinese market Firebird serial stents have held the leading position for nine consecutive years and we believe the launch of Firehawk will strengthen our leading position in the field of coronary intervention. We are committed to bringing Firehawk to the international markets and the application for CE approval is in process.

As at 31 December 2013 there were seven business segments, namely, cardiovascular, endovascular, neurovascular, electrophysiological ("EP"), orthopedic, diabetes care and endocrinal management, and surgical management.

For the year ended 31 December 2013, we derived 79.3% of our revenue from our cardiovascular device, 8.5% from our endovascular device, 3.1% from our neurovascular device, 1.9% from our EP device, 0.3% from our orthopedic device, 1.2% from our diabetes care and endocrinal management, and 5.7% from our Surgical Management. During the year of 2013, we further deepened the diversification of our business and the proportion of cardiovascular attributed to sales decreased. We believe that the proportion will further decreases in the year of 2014 after the acquisition of OrthoRecon business and improve the situation of our excessive dependence on single flagship products in the Chinese market.

MANAGEMENT DISCUSSION AND ANALYSIS

CARDIOVASCULAR DEVICES

Our Cardiovascular segment includes therapies to treat coronary artery disease. We develop, manufacture and sell coronary stents and related delivery systems, along with balloon catheters and accessories.

Despite the fierce competition in the Chinese market, we successfully maintained our leading position in the cardiovascular device market in the PRC in 2013 and an increase of 7% in sales volume of coronary stent has been recognized. Our high quality product offering, mainly attributed by our Firebird2™ Rapamycin-Eluting CoCr Coronary Stent ("Firebird2"), has enabled us to be in the leading position of cardiovascular device market in the PRC. The Firebird2, our second-generation coronary stent, continuously remained as the top selling product of the Group in 2013. The Firebird serial stents have held the leading position for nine consecutive years in the China market.

Our third generation drug-eluting stent, Firehawk represents our latest product offering of our drug-eluting stent family and has been approved for market launch by CFDA on 28 January 2014. The applied targeted eluting technology allows Firehawk to achieve the same clinical efficacy as other traditional DES with only 1/3 dosage of the drug, and therefore greatly improving the safety of Firehawk DES while maintaining its excellent efficacy. Targeted eluting technology is the key milestone of DES technology's research and development. We have spent almost eight years on research and development to make Firehawk the lowest drug dosage DES in the world. Firehawk combines all the advantages of DES and bare metal stents. It represents a major leap forward, transforming our DES offering from a market follower to leader in this segment. The introduction of Firehawk is based on solid evidence-based medical data. The pre-marketing clinical studies of Firehawk consisted of three phases and 1,261 patients in total enrolled in clinical trials, which represented the largest scale premarket clinical trial of a coronary DES in China. Twenty-nine clinical centers in fourteen provinces throughout China witnessed the safety and effectiveness of Firehawk. In Target I randomized key trial, for the first time in China, Xience V (most popular DES in the United States of America and European market) was chosen for comparison with Firehawk. The results of nine-month Angiographic follow-up, and one year clinical follow up show that Firehawk has the same efficacy and safety as Xience V. We believe the launch of Firehawk will strengthen our leading position in the field of coronary intervention. We are committed to bringing Firehawk to the international markets and the application for CE approval of Firehawk is in the process.

Furthermore, on 20 January 2014, we have entered into a definitive agreement with Cordis Corporation ("Cordis") pursuant to which we will acquire certain assets, divested entities and a license to certain intellectual property related to DES of Cordis. The acquired assets include equipment and machinery related to DES manufacturing, as well as certain DES-related patents and other intellectual property. The divested entities from Cordis consist of the entities known as Conor Medsystems. In addition, we have entered into a non-exclusive license with Cordis for worldwide rights to certain of Cordis' DES patents and related intellectual property. Through the acquisition, we will secure the position of being the global leader for targeted eluting coronary stent technology which is the cornerstone technology for our third generation DES product Firehawk and we will take another step forward to strengthen the competitive and intellectual property position for its DES franchise.

MANAGEMENT DISCUSSION AND ANALYSIS

ENDOVASCULAR DEVICE

Our Endovascular device segment is comprised of a line of products and therapies to treat abdominal and thoracic aortic aneurysms and peripheral vascular disease.

For the fiscal year 2013, our endovascular devices business enjoyed a healthy growth. The sales revenue increased 18% compared to the prior fiscal year.

In addition to our cardiovascular line of products, our endovascular devices segment offers a range of other vascular stents to treat aortic and peripheral vascular diseases and disorders. As of 31 December 2013, the product categories of endovascular devices include AAA/TAA Stent Graft System (Hercules™-T, Hercules™-B and Aegis™), Hercules Balloon Dilation Catheter (Hercules™ Balloon Dilation Catheter) and Surgical Stent Graft System (CRONUS™) and Peripheral Stent System (CROWNUS®).

Castor Branched Aortic Stent Grafts and Delivery System, which is our next generation thoracic aotic aneurysm (TAA) stent graft, was firstly implanted in Chinese patient in early 2013. The clinical trial of Castor stent-graft system is the world's first prospective, randomized, multi-center clinical study designed to support CFDA regulatory approval for Branched Thoracic Stent Graft. The successful first implant demonstrates our commitment to bringing meaningful innovations to market that provide more treatment options to a broader spectrum of patients.

In 2013, Hercules™ Balloon Dilation Catheter received certificate from CFDA. The introduction of Hercules™ Balloon Dilation Catheter filled the gap in the domestic made large balloon market and broke the dependence on the foreign-made products. It effectively prevents the endo leak during the endovascular treatment for the aortic aneurysm or dissection. Besides, Cronus™ Surgical Stent Graft System, CROWNUS® Peripheral Stent System and Hercules™-B Bifurcated Stent Graft System successfully received re-registration in 2013. Hercules™-B Bifurcated Stent-graft and its delivery system were honored with 2013 National Key New Project. It is the 5th consecutive years in which MicroPort has received the certificate.

18%

The sales revenue increased 18% compared to the prior fiscal year.

NEUROVASCULAR DEVICES

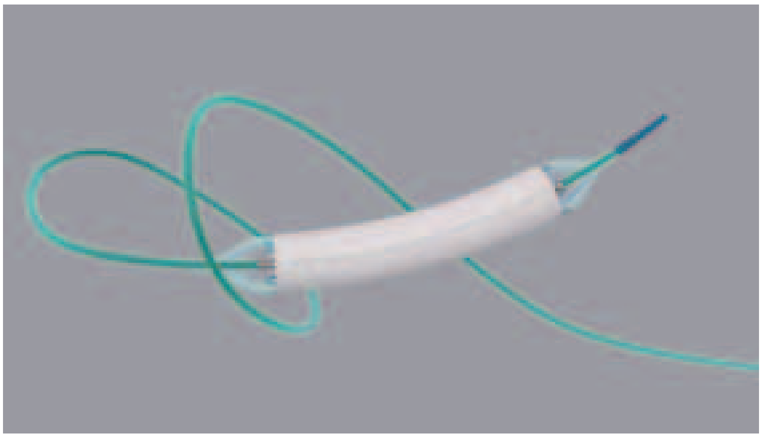
The segment of neurovascular devices specializes in developing, manufacturing and marketing the medical devices in treating the central nervous system related vascular diseases

37.5%

increased by 37.5% as compared to that of 2012

For the segment of neurovascular devices, the sales for the year of 2013 mainly attributed by the sales of APOLLO Intracranial Arterial Stent Syste ("APOLLO") and increased by 37.5% as compared to that of 2012. APOLLO was originally approved by CFDA in 2004 and it is the first balloon-expandable intracranial stent for the treatment of brain stroke entirely developed and designed in China. Since its Launch in 2005, APOLLO has been well received among the neurologist community and currently has 60% domestic market share. In 2013, newly extended specifications for APOLLO Intracranial Arterial Stent System received official certification of regulatory approval from CFDA. There are 13 new general specifications added to the existing 15 specifications. The extended product portfolio provides more selections for physicians and improves the safety and efficacy for the operation.

WILLIS™, our intracranial stent graft system, is the first Chinese designed and manufactured stent for the treatment of intracranial aneurysms. After 9 years in-house development, WILLIS™ was approved by CFDA 5 February 2013. WILLIS™ represents China's highest priced domestic consumable material and it wins market acceptance through innovation for domestic medical devices. In addition, the application of WILLIS™ for CE approval is now in progress.



MANAGEMENT DISCUSSION AND ANALYSIS

ELECTROPHYSIOLOGICAL DEVICES

Our primary focus of segment of EP devices is on the development, manufacturing, and marketing of minimally invasive medical devices for the treatment of EP diseases.

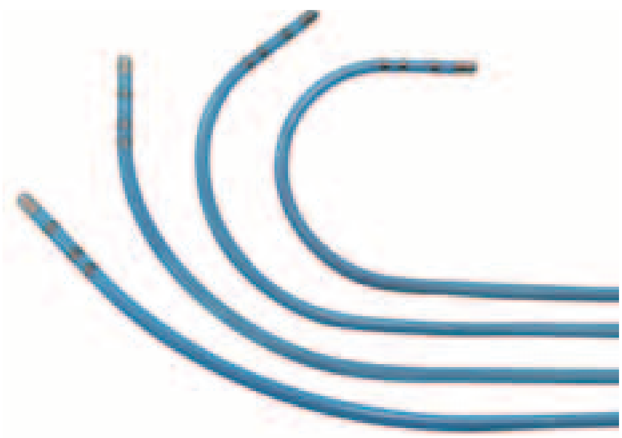
Remarkable accomplishment has been made by our EP devices segment in the year of 2013. Six products which are FireMagic™ radiofrequency ablation catheter ("Fire Magic"), EasyFinder™ fixed or adjustable curved mapping catheter ("EasyFinder"), EasyLoop™ circumferential pulmonary vein mapping catheter ("EasyLoop"), FireMagic™ 3D ("FireMagic 3D") saline infusion radiofrequency ablation catheter, Columbus™ Three-dimensional EP Navigation System ("Columbus") and Anchor™ External Reference Patch ("Anchor") received CE certificate in 2013. We become the third company after Johnson&Johnson and St. Jude who can provide complete electrophysiological atrial radiofrequency ablation device in the world. It is a great step forward for our EP device segment in the international market.

89%

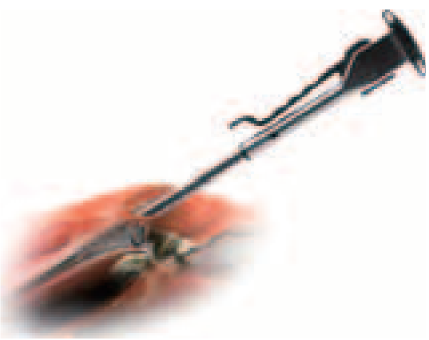
With an increase of 89% in revenue compared to financial year 31 December 2012

In domestic market, our EP device segment achieved its 2013 annual sale target. Both hospital coverage and number of distributors had significantly increased.

Furthermore, the first multi-electrode ablation case in the clinical trial of FlashPoint™ Renal Artery RF Ablation System and the first case of the clinical trial of FlashPoint™ Renal Artery RF Ablation System were completed in 2013.



MANAGEMENT DISCUSSION AND ANALYSIS



ORTHOPEDIC DEVICES

The segment of orthopedic devices specializes in the developing, manufacturing and marketing of instruments and implants for the treatment of orthopedic diseases

The year of 2013 is a milestone for our Orthopedic Device segment. After the completion of the acquisition of OrthoRecon business of WRIGHT MEDICAL, MicroPort Orthopedics became the sixth largest multinational hip and knee orthopedic reconstruction business. This acquisition not only accelerates the process of diversification and internationalization, also immediately increases our body mass. In middle November 2013, the newly established MicroPort Orthopedics debuted at the fifteenth Department of orthopedics academic conference and the Eighth International COA conference of Chinese Medical Association which was held in Beijing.

EVOLUTION™ Medial-Pivot Knee System ("EVOLUTION"), one of the acquired products from WRIGHT MEDICAL, is more stable and quieter during normal daily activities in contrast to other knee implants and is considered to be one of the best products in the world. The design of EVOLUTION is very suitable for the physical structure of Asians and is widely accepted by surgeons. SUPERPATH® Hip Replacement ("SUPERPATH"), another acquired product from WRIGHT MEDICAL, was developed as advancement to traditional total hip replacement. The SUPERPATH technique is a tissue-sparing procedure which aims to get patients back on their feet within days (possibly hours) instead of weeks or months. SUPERPATH is a differentiated total hip technique being performed by a growing number of experienced surgeons. Those high end joint products not only effectively complement our high end line of orthopedic products but also greatly enhance our technical strength and brand image. It is a bold attempt for us to make the oversea acquisition in the situation that multinational medical devices company merged and acquired domestic companies in large scale. It is also a big step forward for the Chinese medical devices industry and help to build reputation and confidence, establish network and sales channel, accumulate experience and resources and greatly accelerate the development of Chinese medical devices industry. More importantly, it will ultimately benefit millions or tens of millions of Chinese elderly patient to enjoy high quality products with lower prices.

MicroPort Orthopedics is committed to providing full range of professional orthopedic product of artificial joints, spinal products, trauma products, sport medicine and other products to serve the community better through our improving management, continuous innovation, active marketing and talents.

In addition, Anterior Spinal Fixation plating System for Cervica, minimally invasive Internal Fixation Instrument set LCP Proximal Humeral Plate Aiming Instruments and LCP Medial Distal Tibia Plate Aiming Instruments were approved in 2013. Reindeer™ Metal Locking Plates system was approved by CFDA on 1 March 2014.

Furthermore, a grand opening ceremony of the construction of MicroPort Orthopedic Industrial Base in Suzhou Singapore Industrial Park in Jiangsu Province in the PRC was held in May, 2013. MicroPort Orthopedic Industrial Base will be built up as the center of production and research and development.

MANAGEMENT DISCUSSION AND ANALYSIS

DIABETES CARE AND ENDOCRINAL MANAGEMENT

Our primary focus of diabetes care and endocrinal segment is on the development, manufacture, monitoring and management of medical devices for the treatment of diabetes and endocrinal.

In 2013, our 16.7% revenue growth of diabetes care and endocrinal segment is comparatively stable after achieving breakeven in last year. La Fenice® GnRH Infusion Pump, which is used for the treatment of Idiopathic HypogonadotropicHypogonadism (IHH) also known as Kallmann Syndrome, successfully received re-registration from Shanghai Food and Drug Administration (SFDA) in September 2013. Compared to the previous generation of the product, the new La Fenice® GnRH Infusion Pump added various features and functionalities such as vibration alarm, pictorial descriptions in the user manual, in which to meet the requirements of laws and regulations.

Additionally,a re-registration certificate issued by the CFDA for our La Fenice®Insulin Pump Infusion Set was obtained in February 2013. The infusion set is a plastic tube connected to reservoir through which insulin passes. It uses special materials includes high-quality raw materials and special casing. The strict manufacturing process and quality control management system ensure the safety of the insulin infusion through the prevention of broken knotting. In addition, the special design with rapid separation and waterproof rubber plug make patients feel more comfortable.

16.7%

We drove 16.7% in the financial year of 2013 for the business segment

MANAGEMENT DISCUSSION AND ANALYSIS

SURGICAL MANAGEMENT

The segment of Surgical Management specializes in extracorporeal circulation and cardiovascular-related devices. The products include Membrane Oxygenation System, Amender™ PDA Occluder and Amender™ ASD Occluder.

It is the second year after the acquisition of Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") and it is also the first year of breaking even of Dongguan Kewei after the acquisition. Dongguan Kewei successfully achieved its annual sales budget in 2013 and showed rapid growth in sales during the year. There are 33 new hospitals in the PRC using Dongguan Kewei's products. Two occluder devices including duct occlude and septal defect occlude and Disposable Cervical Dilator of Dongguan Kewei were approved by CFDA in 2013.

RESEARCH AND DEVELOPMENT

As R&D is the driving force and motivation of our future growth, we continue to not only invest our in-house R&D capability but also positively cooperate with international technology pioneer. As of 31 December 2013, there are 61 on-going R&D projects and over 518 (31 December 2012: 230) high skilled employees serve for our in house R&D team.

In earlier 2014, we have entered into a definitive agreement with Sorin to form a joint venture to market and develop CRM devices including implantable pacemakers, defibrillators, cardiac resynchronization devices and related devices in China. According to the agreement, a total of RMB 62,200,000 would be invested to the joint venture by the Company and Sorin to hold 51% and 49% stake respectively. The two companies will collaborate, through the joint venture, on the import, sale and service of Sorin's CRM devices in Greater China and, in parallel, in accelerating the development of locally manufactured CRM products for the Chinese market. Significant engineering and development resources from both parties will transit to the joint venture immediately. We expect to leverage complementary strength of both companies and penetrate the fast growing CRM market in China.

MANUFACTURING

In the aspect of product management, we have successfully completed the process validation of 34 drug coating machines for Firehawk production and increased production capability of DES by an additional 150 thousand units. The facility expansion has been completed in order to meet the production requirement in 2014., The department of Engineering, Production, and Quality Assurance collaborated with each other in upgrading of sterilization equipments and improving the management system of the sterilization processes. Our sterilization facility has been certified on ISO11135 for EU product release.

In the aspect of continuous improvement, we have further streamlined and optimized our production system, reduced non value-added work, and shortened our production cycle through value stream mapping. For example, the production cycle time and the cost of raw materials of cardiovascular stents have been reduced by 22% and 19% respectively in 2013 comparing to that of 2012.

In the aspect of product improvement, a comprehensive performance review was conducted on Pioneer™ Balloon Dilatation Catheter and many key performances of the product such as the compliancy, the flexibility, and the crossibility, are significantly enhanced through the process improvements. Our engineering team received the award of "Pioneer Team of 2013" from the China Federation of Trade Unions.

MANAGEMENT DISCUSSION AND ANALYSIS

QUALITY ASSURANCE ("QA")

Quality is always the foundation of our products. In 2013, we continued to perform strictly control over and strive to improve our quality system. We have also successfully passed all 8 external audits which included DEKRA, GMP of CFDA, Pakistan GMP and CMD in the year of 2013.

COMPETITION

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

In the coming years, in order to compete effectively in the market, we will continually broaden our products portfolio by innovation and investment in R&D; in order to maintain our leading position in domestic medical device market and keep on going abroad strategy.

INTELLECTUAL PROPERTY ("IP")

Intellectual property, an intangible asset of the Company, is an important factor to enhance our competitiveness in the medical devices market. Thus, we focus on our intellectual property more and more.

BRANDING

In 2013, the trademarks of "MicroPort" and "微創" were identified as Shanghai Famous trademark and our Company was awarded the honorary title of "Pilot Enterprise of Industrial Intellectual Property Implementation Ability Cultivation Project". Furthermore, our rapamycin-eluting coronary stent system was nominated as "2013 Shanghai Top Brand" product. In 2013, we applied for 128 and obtained 32 trademarks respectively in around more than 60 countries.

PATENTS AND OTHER IP

In 2013, we filed 119 patent applications and obtained 38 patents respectively. In addition, 3 copyrights were registered.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

OVERVIEW

Facing a challenging and tough environment with many competitions in China market, we have successfully concluded the year ended 31 December 2013 with a 1% comparable turnover increase and maintained our leading position in the PRC. Furthermore, we aim at bringing our innovations, technologies and services to millions of global patients and becoming a leading China-based global enterprise.

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

TURNOVER

The following discussion is based on our seven major business segments during the year ended 31 December 2013. During the year ended 31 December 2013, we have the turnover of approximately RMB938.7 million, and on 1% increase compared to the turnover of approximately RMB931.0 million for the year ended 31 December 2012. Such increase was primarily attributable to the increase of the sales of non-cardiovascular devices.

– **CARDIOVASCULAR DEVICES SEGMENT**

Our cardiovascular devices generated revenue of RMB745.0 million in the year ended 31 December 2013, with a decrease of 4.3% compared to RMB778.8 million over the year ended 31 December 2012. Such revenue decrease was mainly attributable to the decrease in revenue on the business of dug-eluting stents owing to (i) decreased unit selling prices of DES as a result of provincial tender; (ii) more domestic manufacturers entering the DES market which results in more intense competition; (iii) slower growth of percutaneous coronary intervention procedures. Nevertheless, we are still among the domestic leading suppliers of DES in the year ended 31 December 2013.

– **ENDOVASCULAR DEVICE SEGMENT**

Our endovascular devices generated revenue of RMB79.5 million in the year ended 31 December 2013, with an increase of 18.0% compared to RMB67.4 million over the year ended 31 December 2012. Such growth was mainly attributed to the organic growth of Thoracic Aortic Aneurysm ("TAA")/Abdominal Aortic Aneurysm ("AAA") Stent Graft Systems and increasing market recognition of our stent graft systems in surgical operation.

– **NEUROVASCULAR DEVICE SEGMENT**

Our neurovascular devices generated revenue of RMB28.7 million in the year ended 31 December 2013, with an increase of 37.5% compared to RMB20.8 million over the year ended 31 December 2012. Such growth was mainly attributable to the steady increase in the sales volumes of APOLLO and the launching of our new product WILLIS®. APOLLO is the first intracranial arterial stent system produced in the PRC.

– **EP DEVICE SEGMENT**

Our EP devices segment generated revenue of RMB18.3 million in the year ended 31 December 2013, with an increase of 89.0% compared to RMB9.7 million over the year ended 31 December 2012. We are pleased with the financial performance of our EP devices. Such significant increase was mainly attributable to (i) our EP devices have obtained further affirmation in the marketplace; (ii) we have contracted with more customers for our EP devices during the year under review.

– ORTHOPEDIC DEVICE SEGMENT

Our orthopedic devices generated revenue of RMB2.6 million in the year ended 31 December 2013, with a decrease of 92.1% compared to RMB33.1 million over the year ended 31 December 2012. Such decrease was mainly attributed by the impact of (i) ceased the sales of old series of our one leading product in 2013 as the result of new product development; and (ii) we have not yet obtained the registration certificate of the new product as of 31 December 2013, which is required for selling the new product in the market. The registration certificate of this new product was obtained on 1 March 2014.

– DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT

Our segment of diabetes care and endocrinal management generated revenue of RMB11.4 million in the year ended 31 December 2013, with an increase of 16.7% compared to RMB9.7 million over the year ended 31 December 2012. The growth was mainly resulted in the steady increased sales of La Fenice® gonadotropin-releasing hormone infusion pump owning to its further affirmation in the marketplace.

– SURGICAL MANAGEMENT SEGMENT

Our segment of surgical management devices generated revenue of RMB53.3 million in the year ended 31 December 2013, with an increase of 367.5% compared to RMB11.4 million over the year ended 31 December 2012. The growth was mainly resulted from the business of Dongguan Kewei Medical Instrument Co., Ltd., which was announced the completion of the acquisition in September 2012.

COST OF SALES

During the year ended 31 December 2013, our cost of sales was RMB178.1 million, representing a 16.3% increase as compared to RMB153.1 million over the year ended 31 December 2012. Such increase was primarily attributable to the increased cost of Dongguan Kewei, which was acquired in September 2012, was consolidated in current period.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit decreased by 2.2% from RMB777.8 million for the year ended 31 December 2012 to RMB760.6 million for the year ended 31 December 2013. Gross profit margin is calculated as gross profit divided by turnover. Our gross profit margin decreased to 81.0% as compared to 83.6% for the year ended 31 December 2012. The decrement in gross profit margin in the year ended 31 December 2013 was mainly attributable to (i) decreased unit selling prices of DES as a result of the provincial tender; and (ii) the proportion of the sales of low-margin products increased.

OTHER REVENUE AND OTHER NET INCOME

We had other revenue of RMB44.0 million and other net income of RMB1.3 million in the year ended 31 December 2013, while other revenue and other net income were RMB54.7 million and RMB13.2 million, respectively, in the year ended 31 December 2012. The decrease in other revenue was caused by the decrease in interest income, while the decrease of other net income was primarily attributable to the decrease of the foreign exchange gain on overseas deposits placed in the form of RMB due to the conversion of certain RMB denominated deposits into USD denominated deposits for the use of future payments for the acquisition of OrthoRecon business.

RESEARCH AND DEVELOPMENT COSTS

Our R&D costs increased by 23.9% from RMB145.8 million for the year ended 31 December 2012 to RMB180.7 million for the year ended 31 December 2013. The increase was primarily due to continuous investment in R&D, and we have also commenced several new research and development projects in the year ended 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTION COSTS

Distribution costs decreased by 8.3%, from RMB173.0 million for the year ended 31 December 2012 to RMB158.6 million for the year ended 31 December 2013. The decrease was mainly attributed by the impact of (i) the decreased input in regional conferences because less academic conferences were hold in some region, and (ii) decreased post-sales clinical fee because part of post-sales clinical projects finished in 2013.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 14.0% from RMB104.6 million for the year ended 31 December 2012 to RMB119.2 million for the year ended 31 December 2013. The increase was mainly attributable to (i) the administrative expense incurred by Dongguan Kewei, which was consolidated since September 2012; and (ii) the additional intangible assets' amortization mainly arise from the acquisition of products licences of Dongguan Kewei in September 2012 and Winning Forward in November 2012.

OTHER OPERATING COSTS

Other operating costs increased from RMB5.3 million for the year ended 31 December 2012 to RMB135.5 million for the year ended 31 December 2013. The increase was primarily due to (i) the transaction cost for acquisition totaled RMB108.8 million; and (ii) the impairment loss of RMB20.5 million for the goodwill associated with a business acquisition completed in prior years.

FINANCE COSTS

Finance costs increased from RMB1.7 million for the year ended 31 December 2012 to RMB6.5 million for the year ended 31 December 2013. The increase was mainly driven by the interest expense of interest-bearing borrowings.

INCOME TAX

Income tax decreased from RMB61.4 million for the year ended 31 December 2012 to RMB56.7 million for the year ended 31 December 2013. The decrease in the Group's profit before tax was primarily due to the decrease of profit before tax of the PRC subsidiaries. The decrease in the Group profit resulted in an increase of our effective tax rate from 14.8% for the year ended 31 December 2012 to 27.6% for the year ended 31 December 2013.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2013, we had RMB968.7 million of cash and cash equivalent on hand, as compared to RMB413.1 million as of 31 December 2012. 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 2013 was RMB312.6 million, with an increase of RMB289.4 million as compared to RMB23.2 million as of 31 December 2012. As at 31 December 2013, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 13.2 %, as compared to 1.0% as 31 December 2012.

WORKING CAPITAL

Our working capital as of 31 December 2013 was RMB1,343.8 million, as compared to RMB1,401.4 million as 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from (i) sales and purchases which give rises to receivables and payables that are denominated in a foreign currency (mainly US$) and; (ii) IPO proceeds which were received by the Company were in HK$ and were mostly exchanged into RMB and US$. The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Group to currency risk. During the year, the Group recorded a net exchange gain of RMB0.2 million, as compared to exchange gain RMB13.6 million as 31 December 2012. The Group does not employ any financial instruments for hedging purposes.

CAPITAL EXPENDITURE

During the year, the Group's total capital expenditure amounted to RMB320.3 million, which was used in (i) building and purchasing lands and (ii) acquiring equipment and machinery and (iii) capitalization of R&D projects expenses.

ACQUISITION

In 2013, the Company has started a very substantial acquisition of Wright Medical's OrthoRecon business. On 10 January 2014, the Company completed the acquisition of OrthoRecon business from Wright Medical Group, Inc. and the acquisition establishes MicroPort Orthopedics as the sixth largest multinational hip and knee orthopedic reconstruction business.

CHARGE ON ASSETS

As at 31 December 2013, the Group had pledged its building held for own use with a net book value of RMB24.8 million on the purpose of securing a long term loan with a carrying value of RMB2.7 million. The Group had pledged certain land use right and construction in progress held for own use with a net book value of RMB30.4 million and RMB321.7 million respectively for the purpose of securing a banking loan with a carrying value of RMB50 million. The Group had pledged bank deposits with a carry amount of RMB105.0 million for the purpose of securing a banking loan with a carrying value of RMB90.9 million.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

HUMAN RESOURCES

As at 31 December 2013, the Group employed approximately 1,896 employees, as compared to 1,714 employees as at 31 December 2012. 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 devices market in the PRC has been growing rapidly with the development of natural economic and government investment in social medical insurance, which attracts more and more multinational corporations to enter this market. In order to compete in this fast growing market, we will continuously perform proactive strategies, including but not limited to:

1. **Further strengthen our leading position in domestic medical devices market**

   We will take advantages of our brand recognition and our sales distribution network in domestic market to maintain and strengthen our leading position in the PRC medical devices market. For example, we plan to commence sales and marketing of Firehawk and MicroPort Orthopedic's products in the PRC, and also conduct import, sale and service of Sorin's CRM devices in Greater China in addition to our existing business.

2. **Deepen our internationalization**

   We are now an international medical company and a globalization of multi-points and multi centers is what we expect. Furthermore, we will introduce advanced medical devices through establishing network and sales channel, accumulate experience and resources and reputations won after the acquisition of OrthoRecon business from Wright Medical.

3. **Diversification of existing and new products through innovation**

   The numbers of products for sale increased from 92 in the year 2012 to 205 after the acquisition of OrthoRecon business from Wright Medical. We are further introducing innovative products to diversify our product offering and provide a comprehensive portfolio of medical devices to physician and patients. Accordingly, we expect to generate revenue from the sales of diversified products lines going forward.

4. **Developing and improving our existing products**

   We are further developing and improving the performance and manufacturing craft of our existing products. We have extensive R&D activities aimed at developing new generation of our existing products, such as the Firehawk, which has been approved by CFDA.

CORPORATE SOCIAL RESPONSIBILITY

At MicroPort, we are enthusiastic about improving the wellbeing of people and communities. Our Business Philosophy is grounded in concepts of contributing toward social harmony, and our dedication to improving lives through scientific medical innovation is equaled by our committed approach to social responsibility through a variety of community focused programs.

CHARITY FOUNDATION:

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

MicroPort has also established the MicroPort Aspiration & Encouragement Scholarship Fund for the College of Medical Instrument at the University of Shanghai for Science and Technology. The scholarship is dedicated to assisting students facing financial hardships who are outstanding in both their moral character and academic achievements.

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

CULTIVATING THE FUTURE:

In 2013, the second “MicroPort Hope School” in GuiZhou Province was put into use, which further provides educational opportunities for students in the remote area.

In 2008, MicroPort made a donation to University of Shanghai for Science and Technology to establish a medical device library and information Center.

In 2007, MicroPort established a campaign to build the MicroPort Hope Primary School in an impoverished area of China. The generous donations of employees and MicroPort stakeholders meant the project was completed in 2010 and now provides educational opportunities for children who may not previously have had access to education. At the same year, MicroPort established a companywide campaign to build the MicroPort Hope Primary School in an impoverished area of China.

In 2006, MicroPort donated 2,000,000 RMB to establish MicroPort Foundation in University of Shanghai for Science and Technology. In 2007, an additional 1,250,000 RMB was donated to the same university to establish the Medical Device Library and Information Center. During the same year, MicroPort founded a scholarship fund for the Zhangjiang Institute of Innovation. The Institute is dedicated to the training, supply and exchange of talents for enterprises in Zhangjiang Park. Our scholarships provide help for students with financial hardship who have exhibited a high academic standard, and excel in finance and research activities.

ENVIRONMENT AND SUSTAINABILITY

We are committed to creating a successful business that isn’t achieved at the expense of the environment. MicroPort is dedicated to create an environmentally friendly and sustainable operation. Our biggest environmental impact is created within our properties and manufacturing facilities, and through the use of raw materials, electricity, gas, paper, and waste generation. We therefore invest in the latest technology to reduce our carbon emissions through energy efficient equipment. Internally, we are proactive in addressing our waste and recycling issues.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang (常兆華), born in 1963, is our founder, Executive Director ("Director"), Chairman and Chief Executive Officer ("CEO") of our Company. Dr. Chang has served as a Director since 14 July 2006 and assumed the responsibility of the CEO of our Company from April 2008 to July 2010, and reassumed the responsibility of the CEO of our Company from 20 September 2012. Dr. Chang is currently holding directorship in various subsidiaries of the Group. Dr. Chang has over 23 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 Shanghai MicroPort Medical (Group) Co., Ltd (上海微創醫療器械(集團)有限公司) ("MP Shanghai") in 1998, Dr. Chang was the vice president of research and development of Endocare Inc., a NASDAQ listed medical device company based in California, U.S., from 1996 to 1997. From 1990 to 1995, he was the senior engineer and senior scientist, director of research and development and vice president of engineering at Cryomedical Sciences Inc., a medical device company in Maryland, U.S., which was listed on NASDAQ prior to its acquisition by a third party. Dr. Chang has published a number of articles in biomedical science magazines, and holds 14 patents in China and the United States. Dr. Zhaohua Chang received a bachelor's degree in refrigeration engineering in 1983 and a master's degree in cryogenics in 1985 from the University of Shanghai for Science and Technology. Dr. Chang received his Ph.D. degree in biological sciences from the State University of New York at Binghamton in 1992.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

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 certain subsidiaries of the Group. 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 Mr. Shirafuji is currently holding directorship in certain subsidiaries of the Group. Mr. Shirafuji is the President of Otsuka Medical Devices Co., Ltd. ("OMD"), a subsidiary of Otsuka Holdings. Prior to joining OMD in February 2011, 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 OMD in February 2011.

Mr. Ganjin Chen (陳幹錦), born in 1968, is a Non-executive Director of our Company on 9 December 2013. Mr. Chen is currently holding directorship in certain subsidiaries of the Group. Mr. Ganjin Chen is the secretary of the party committee and general manager of Shanghai Zhangjiang (Group) Co., Ltd 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. Ganjin Chen graduated from Xi'an Jiaotong University with a Bachelor Degree of thermal energy & power engineering and China Europe International Business School with a Master of Business Administration.

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 served as Senior Vice President & Chief Financial Officer of Kulicke & Soffa Industries, Inc., a NASDAQ listed company (NASDAQ: KLIC) since December 2010. After successful completion of the move of Kulicke & Soffa's Global Corporate Headquarters from the U.S. to Singapore, he led a complex business tax restructuring project to improve operating efficiency and reduce the company's effective tax rate during a record setting fiscal year of 2011. Effective from 1 October 2012, Mr. Chou's overall responsibilities expanded to include Global Information Technology. Mr. Chou has over 20 years of professional experience largely with Fortune 500 companies. He was the Asia Pacific Chief Financial Officer and Vice President, Mergers & Acquisitions of Honeywell International, where he managed the company's M&A activities in the region from Shanghai, China. Prior to Honeywell, he was the Asia Chief Financial Officer of Tyco ADT, the Fire & Security segment of Tyco International, where he led initiatives to improve operating efficiency and improvement of corporate governance to meet Sarbanes-Oxley attestation. Mr. Chou served as Asia/Pacific Regional Chief Financial Officer of Lucent Technologies Inc., based in Hong Kong and Singapore. Before that, he held the position of Managing Director of Treasury & Customer Finance for Asia Pacific and China regions, with a portfolio of over US$1.4 billion of vendor financing commitments. Prior to joining K&S, Mr. Chou was the Chief Financial Officer of a private equity portfolio company, where he was instrumental in managing the audit and listing process. In April 2009, he was awarded 'China's Top Ten CFOs of 2008' by CFO World Magazine in recognition of his leadership role for navigating through the global financial crisis. 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 National School of Development 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.

SENIOR MANAGEMENT

After the Completion of the Acquisition of WRIGHT MEDICAL OrthoRecon Business, the Company consists of two geographically distinctive operational units which are Greater China and Inter-continental respectively managed by Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC"). Dr. Zhaohua Chang is the Founder, Chairman and CEO of our Company and MP Shanghai. Mr. Hongbin Sun is the Chief Financial Officer ("CFO") of our Company and MP Shanghai, Mr. Qiyi Luo is the Chief Technology Officer ("CTO") of our Company. Mr. Jonathan Chen is the Senior Vice President of International Operation & Investor Relations of our company.

Dr. Zhaohua Chang (常兆華), Executive Chairman and CEO of our Company. Please refer to the section headed "Directors —Executive Director" above for the details of his biography.

Mr. Hongbin Sun (孫洪斌), born in 1975, is CFO of our Company. Mr. Sun served as a Director from 22 July 2010 to 20 September 2012. 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 16 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.

Mr. Qiyi Luo (羅七一), born in 1962, is CTO of our Company and member of CEC and IEC. Mr. Luo served as a Director from 22 July 2010 to 20 September 2012. 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 20 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.

Mr. Jonathan Chen, Senior Vice President of International Operations & Investor Relations of our Company, and Co-Chairman of IEC. Mr. Jonathan Chen has is served as Vice President, International Business & Investor Relations for our Company and has been with the company since July 2012. Mr. Chen's primary responsibilities include growing MicroPort's International business in markets outside of China primarily in US, Europe and South America geographies. Mr. Chen has over 18 years' experience in the medical device industry. Prior to joining MicroPort, Mr. Chen worked for Angiotech Pharmaceuticals, Inc. for 6 years where he was Senior Vice President, Business Development where he led the management team to build a $300 million in revenue medical products business through various acquisitions and licensing transactions. Prior to joining Angiotech, Mr. Chen was a life sciences investment banker for Credit Suisse and Alex. Brown & Sons where he helped his clients raise in excess of $2 billion in equity and debt capital and advised on over $3 billion in Mergers & Acquisitions transactions. Mr. Chen has a Bachelor of Arts in Economics and a Bachelor of Sciences with honors in Biological Sciences from Stanford University.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

GREATER CHINA EXECUTIVE COMMITTEE

Mr. Bo Peng (彭博), born in 1968, is Chief Marketing Officer of MP Shanghai and Chairman of CEC. Prior to August 2010, Mr. Peng served as Senior Vice President of domestic sales and marketing of the Company. Mr. Peng has over 18 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.

Mr. Hongbin Sun (孫洪斌), CFO of our Company, CEC Vice Chairman and IEC member. Please refer to the above for the details of his biography.

Mr. Qiyi Luo, CTO of our Company, member of CEC and IEC. Please refer to the above for the detail of his biography.

Ms. Yan Zhang (張燕), born in 1970, is President of MP Shanghai and member of CEC. Ms. Zhang served as a Director from 22 July 2010 to 20 September 2012. 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 and her Master of Business Administration Degree from CEIBS in 2011, respectively.

Mr. Kongrong Karl Pan (潘孔榮), born in 1959, is Senior Vice President of Supply Chain of MP Shanghai. Mr. Pan has over 21 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. Yimin Xu (徐益明), born in 1967, Senior Vice President of Regulatory Affairs of MP Shanghai and a member of CEC. Mr. Xu was Vice President of Quality and Regulatory of MP Shanghai until January 2011. He has over 14 years of experience in medical device industry. Prior to joining us in 2000, Mr. Xu served as project manager in Project Department of Shanghai Zhangjiang Hi-Tech Development Co., Ltd. from 1995 to 2000. Mr. Xu also served as quality engineer in Nanjing No.2 Air Compressor Factory from 1988-1992. Mr. Xu received his master degree in Mechanical and Electronic Engineering from Shanghai Jiaotong University in 1995.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

INTER-CONTINENTAL EXECUTIVE COMMITTEE

Mr. Ted Davis, Chief Executive Officer of MicroPort Orthopedics, Chairman of IEC. Mr. Ted Davis joined MicroPort Orthopedics as President, following the asset purchase of Wright Medical's OrthoRecon Business in January 2014. Mr. Davis has led the OrthoRecon business for Wright Medical Technology, Inc. ("Wright") since 2012, with global responsibility for the approximately $250 million hip and knee arthroplasty segment. Prior to assuming leadership of the OrthoRecon business, Mr. Davis led Wright's Corporate Development and Research & Development functions, with responsibilities for the Business Development, Government Affairs, National Accounts, Reimbursement, Medical Education and Global Research & Development teams from 2010 through 2012. Mr. Davis originally joined Wright as Vice President – Business Development in December 2006 and has led several corporate strategic initiatives, including the establishment of Wright Direct and the completion of two corporate spin-offs. Prior to joining Wright, Mr. Davis spent 10 years in the life sciences venture capital field at MB Venture Partners and Vector Fund Management, where he served on various boards of privately held medical device and biotechnology companies. Mr. Davis began his career in the healthcare management consulting and pharmaceutical industries. Mr. Davis received a Bachelor of Engineering degree in Biomedical Engineering from Vanderbilt University and an MBA from the J.L. Kellogg Graduate School of Management at Northwestern University. He currently serves on the Board of Directors for SIBone, Inc. and The Memphis Research Consortium.

Mr. Jonathan Chen, Senior Vice President of International Operations & Investor Relations for our Company, and Co-Chairman of IEC. Please refer to the above for the detail of his biography.

Mr. Hongbin Sun (孫洪斌), CFO of our Company, CEC Vice Chairman and IEC member. Please refer to the above for the details of his biography.

Mr. Qiyi Luo (羅七一), CTO of our Company, Member of CEC and IEC. Please refer to the above for the details of his biography.

Mr. Aurelio Sahagun, International Vice President of MicroPort Orthopedics. Mr. Aurelio Sahagun joined MicroPort Orthopedics as International Vice President, following the asset purchase of Wright Medical's Orthorecon Business in January 2014. Mr. Sahagun began serving as Wright Medical's Vice President – EMEA Commercial Operations in May 2011, and had previously served as Vice President-Sales for the region since April 2010. He joined Wright in early 2006 as Director of Finance and Operations in France, and served as both Director of Finance-EMEA and Vice President of Finance-EMEA prior to the positions above. Before Wright Medical, Mr. Sahagun worked for Medtronic where he provided senior financial support to the company's Spine business across Europe. He began his career in Spain, where he held several finance and business management positions in banking and distribution organizations with increased responsibilities covering Spain, Portugal and Latin-America. Mr. Sahagun holds an MBA degree from HEC (Paris, France), a Bachelor's degree in Economics from UAM (Autonomous University of Madrid, Spain), and has followed additional Executive Education programs at Stanford Graduate School of Business (Stanford, CA-USA) and Harvard Business School (Cambridge, MA-USA).

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 2013.

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 2013 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 61 to 148 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2013, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 20.5% and 39.9% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 16.2% and 38.0% respectively of the Group's total revenue for the year.

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

REPORT OF THE DIRECTORS

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.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in note 20 to 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.

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 2013, the Company had reserves available for distribution of RMB1,507 million (2012: RMB1,702 million).

GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past 5 financial years is set out in the section Five Years Financial Summary of this annual report.

DIRECTORS

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

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Ganjin Chen *(Appointed on 9 December 2013)*
Mr. Lei Ding *(Resigned on 9 December 2013)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 24 to 29 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACT

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

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 24 September 2010 and such appointment will continue thereafter unless and until terminated by either party in accordance with the letter of appointment.

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

EMOLUMENT POLICY

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

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 2013, 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:

INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES OF THE COMPANY

Name of Director/Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of interest in the Company
Chang Zhaohua	10,000,000	1	Beneficial owner	Long position	0.70%

Notes:

(1) Chang Zhaohua is interested in the underlying Shares of the Company by virtue of the options granted to him 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 2013, 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 2013, 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	Percentage of total number of Shares in issue (%)
Otsuka Holding Co. Ltd.	468,994,120	1	Interest of controlled corporation	Long position	33.28
Otsuka Medical Devices Co., Ltd.	468,994,120	1	Beneficial owner	Long position	33.28
Shanghai Zhangjiang Science and Technology Investment Co.	285,748,050	2	Interest of controlled corporation	Long position	20.28
Shanghai Zhangjiang (Group) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.28
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.28
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.28
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.28
Shanghai ZJ Hi-Tech Investment Corporation	285,748,050	2	Interest of controlled corporation/ Beneficial owner	Long position	20.28
Shanghai ZJ Holdings Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.28
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	2	Beneficial owner	Long position	15.32
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	15.40
Shanghai We'Tron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	15.40
We'Tron Capital Ltd.	217,110,000	3	Beneficial owner	Long position	15.40
Gao Yang Investment Corp.	75,233,720	4	Interest of controlled corporation/ Beneficial owner	Long position	5.33
Shen Yao Fang	75,233,720	4	Interest of controlled corporation	Long position	5.33

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..

(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	Approximate percentage of total number of Shares in issue (%)
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.50
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	15.32
Shanghai Zhangjiang Health Solution Investment Limited	53,398,570	3.79
Shanghai Zhangjiang Health Solution Industry Limited	9,423,280	0.67
Total	285,748,050	20.28

(3) Maxwell Maxcare Science Foundation Limited holds 79% of Shanghai We'Tron Capital Corp. which in turn is interested in 94.19% of We'Tron Capital Limited. Therefore, Maxwell Maxcare Science Foundation Limited, Shanghai We'Tron Capital Corp. and We'Tron Capital Limited are interested in the same 217,110,000 Shares held by We'Tron Capital 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 Qi 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 2013, 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(b) 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 THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2013, the Company has repurchased a total of 3,215,000 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 Highest	Purchase price paid per share Lowest	Aggregate Purchase Price paid
		HK$	HK$	HK$
January 2013	2,178,000	4.71	4.36	9,857,972.20
June 2013	101,000	6.31	6.10	621,640.20
July 2013	936,000	6.57	5.93	5,763,474.70
	3,215,000	6.57	4.36	16,243,087.10

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 material acquisition and disposal of subsidiaries and associated companies by the Company.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2013.

SHARE OPTION SCHEMES

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 is 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 31 December 2013, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represent 11.9 % 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 47,195,840.

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 2013, 29,400,000 Shares were available for issue under the Share Option Scheme, which represented 2.08 % 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.

REPORT OF THE DIRECTORS

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.

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, 1,150,000 share options were granted and the status of the share options granted up to 31 December 2013 is as follows:

Category of participants	As at 1 January 2013	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2013	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 Jul. 2010	9 Jul. 2011–8 Jul. 2014	9 Jul. 2011–8 Jul. 2020	USD0.3062	NA
In aggregate	**10,000,000**	**-**	**-**	**-**	**10,000,000**					
Consultants										
	2,040,450	–	340,000	–	1,700,450	20 Feb. 2004	24 Sep. 2010–23 Sep. 2011	24 Sep. 2011–19 Feb. 2014	USD0.025	NA
	1,700,080	–	1,700,080	–	–	20 Feb. 2004	24 Sep. 2010–23 Sep. 2011	24 Sep. 2011–19 Feb. 2014	HKD0.05498	NA
	818,680	–	–	–	818,680	20 Feb. 2004	24 Sep. 2010–23 Sep. 2011	24 Sep. 2011–19 Feb. 2014	HKD0.05827	NA
	1,774,080	–	–	–	1,774,080	20 Feb. 2004	24 Sep. 2010–23 Sep. 2011	24 Sep. 2011–19 Feb. 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 Jun. 2007	24 Sep. 2010–23 Sep. 2014	24 Sep. 2011–23 Sep. 2020	USD0.3062	NA
In aggregate	**7,833,290**	**-**	**2,040,080**	**-**	**5,793,210**					
Employees										
	818,680	–	–	–	818,680	20 Feb. 2004	24 Sep. 2010–23 Sep. 2011	24 Sep. 2011–19 Feb. 2014	HKD0.05637	NA
	2,605,610	–	–	–	2,505,610	2 Mar. 2007	2 Mar. 2007–14 Feb. 2011	15 Feb. 2008–24 Jan. 2017	USD0.275	NA

Category of participants	As at 1 January 2013	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2013	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										
	2,206,370	–	487,970	20,290	1,698,110	23 Apr. 2007	23 Apr. 2007– 1 Mar. 2013	23 Apr. 2007– 22 Apr. 2017	USD0.275	NA
	500,000	–	–	–	500,000	14 Jun. 2007	23 Sep. 2007– 22 Sep. 2012	23 Sep. 2008– 22 Sep. 2017	USD0.3062	NA
	900,000	–	400,000	–	500,000	25 Jul. 2008	25 Jul. 2008– 24 Jul. 2012	25 Jul. 2009– 24 Jul. 2018	USD0.3062	NA
	1,000,000	–	–	–	1,000,000	25 Jul. 2008	25 Jul. 2008– 27 Apr. 2010	25 Jul. 2008– 24 Jul. 2018	USD0.3062	NA
	200,000	–	–	–	200,000	1 Dec. 2008	24 Jun. 2008– 23 Jun. 2012	24 Jun. 2009– 23 Jun. 2018	USD0.3062	NA
	1,500,000	–	–	–	1,500,000	1 Dec. 2008	1 Jan. 2009– 31 Dec. 2012	1 Jan. 2010– 31 Dec. 2018	USD0.3062	NA
	250,000	–	100,000	–	150,000	6 Feb. 2009	6 Feb. 2009– 5 Feb. 2014	6 Feb. 2010– 5 Feb. 2019	USD0.425	NA
	4,000,000	–	–	–	4,000,000	21 Oct. 2009	9 Oct. 2009– 8 Oct. 2014	9 Oct. 2010– 20 Oct. 2019	USD0.3062	NA
	1,500,000	–	–	–	1,500,000	21 Oct. 2009	15 Oct. 2009– 14 Oct. 2014	15 Oct. 2010– 20 Oct. 2019	USD0.3062	NA
	500,000	–	12,000	–	488,000	21 Oct. 2009	1 Jan. 2010– 31 Dec. 2014	1 Jan. 2011– 20 Oct. 2019	USD0.3062	NA
	700,000	–	–	–	700,000	8 Jul. 2010	1 Aug. 2010– 31 Jul. 2014	1 Aug. 2011– 7 Jul. 2020	USD0.3062	NA
	276,000	–	16,500	33,000	226,500	8 Jul. 2010	8 Jul. 2010– 7 Jul. 2014	8 Jul. 2011– 7 Jul. 2020	USD0.3062	NA
	8,648,730	–	375,000	500,000	7,773,730	9 Jul. 2010	9 Jul. 2010– 8 Jul. 2014	9 Jul. 2011– 8 Jul. 2020	USD0.3062	NA
	5,000,000	–	1,298,000	–	3,702,000	9 Jul. 2010	9 Jul. 2011– 8 Jul. 2014	9 Jul. 2011– 8 Jul. 2020	USD0.3062	NA

Category of participants	As at 1 January 2013	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2013	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										
	1,000,000	–	750,000	–	250,000	9 Aug. 2010	9 Aug. 2010– 8 Aug. 2014	28 Apr. 2011– 8 Aug. 2020	USD0.3062	NA
	3,790,000	–	–	–	3,790,000	9 Aug. 2010	9 Aug. 2010– 8 Aug. 2014	1 Sep. 2011– 8 Aug. 2020	USD0.3062	NA
	500,000	–	–	–	500,000	17 Oct. 2011	17 Oct 2012– 17 Dec. 2018	17 Oct 2012– 16 Oct. 2021	HKD4.790	HKD4.790
	750,000	–	–	–	750,000	1 Nov. 2011	1 Nov 2012– 1 Nov. 2017	1 Nov 2012– 31Oct. 2021	HKD4.470	HKD4.470
	10,000,000	–	–	–	10,000,000	28 Aug. 2012	28 Aug. 2019	28 Aug. 2019– 27 Aug. 2022	HKD3.350	HKD3.350
	500,000	–	–	–	500,000	7 Sep. 2012	6 Sep. 2013– 6 Sep. 2017	6 Sep. 2013– 6 Sep. 2022	HKD3.330	HKD3.330
	500,000	–	–	–	500,000	22 Oct. 2012	22 Oct 2013– 22 Oct. 2017	22 Oct 2013– 21 Oct. 2022	HKD4.210	HKD4.210
	13,100,000	–	–	1,100,000	12,000,000	10 Dec. 2012	10 Dec. 2019	10 Dec. 2019– 9 Dec. 2022	HKD4.600	HKD4.600
	–	500,000	–	–	500,000	2 Jan. 2013	2 Jan. 2014– 2 Jan. 2018	2 Jan. 2014– 1 Jan. 2023	HKD4.230	HKD4.230
	–	250,000	–	–	250,000	28 Aug. 2013	28 Aug. 2014– 28 Aug. 2018	28 Aug. 2014– 27 Aug. 2023	HKD4.970	HKD4.970
	–	400,000	–	–	400,000	9 Dec. 2013	9 Dec. 2014– 9 Dec. 2017	9 Dec. 2014– 8 Dec. 2023	HKD5.590	HKD5.590
In aggregate	**60,745,390**	**1,150,000**	**3,079,470**	**1,653,290**	**56,702,630**					
Seller of Dongguan Kewei	4,000,000	–	–	–	4,000,000	25 Jun. 2012	25 June. 2016	25 Jun. 2016– 26 Jul. 2016	HKD3.240	HKD3.190
Total	**82,578,680**	**1,150,000**	**5,119,550**	**1,653,290**	**76,495,840**					

REPORT OF THE DIRECTORS

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the financial year ended 31 December 2013 as required under the Listing Rules.

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.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on 30 June 2014. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the financial year ended 31 December 2013 (2012: HK$0.08 (equivalent to RMB0.06 per share)).

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 27 June 2014 to Monday, 30 June 2014, 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 Service 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, 26 June 2014.

CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report of this Annual Report.

AUDITORS

KPMG has acted as auditors of the Company for the financial year ended 31 December 2013.

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

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

Shanghai, China
31 March 2014

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 2013.

The Company is committed to maintaining high standards of corporate governance and practices to protect the interests of the shareholders of the Company. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company adopts the principles set out in the Corporate Governance Code and embedding best governance practices throughout the organization.

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.

Throughout the year ended 31 December 2013, the Company complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code with the exceptions of Code Provisions A.2.1 and A.6.7 as addressed below:

1. Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Reference is made to the announcement of the Company dated 21 September 2012. Dr. Zhaohua Chang ("**Dr. Chang**") has re-assumed the responsibility of the executive director of the Company and at the same time, Dr. Chang was appointed as the chairman of the Company, which is responsible for managing the Board and the Group's business. As the Board considers that Dr. Chang has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently, he has re-assumed the position of the chief executive officer of the Company. Nevertheless, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the positions of chairman and chief executive officer of the Company is necessary.

2. Paragraph A.6.7 of the Code Provisions requires that the non-executive Directors of the Company and the independent non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. During the financial year ended 31 December 2013, an annual general meeting was held on 26 June 2013 at which Mr. Lei Ding, Mr. Jonathan H. Chou and Dr. Guoen Liu did not attend due to other business engagements.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Corporate Governance Code. The key corporate governance principles and practices of the Company are summarised in this report.

CORPORATE GOVERNANCE REPORT

THE BOARD/BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

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

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

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

BOARD COMPOSITION

The Board structure is governed by the Company's articles of association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

As at 31 December 2013, the Board comprises seven members, consisting of one executive Director, 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 3. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. 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.

The Board of the Company comprises the following Directors:

EXECUTIVE DIRECTOR:

Dr. Zhaohua Chang *(Chairman and Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS:

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Ganjin Chen *(Appointed on 9 December 2013)*
Mr. Lei Ding *(Resigned on 9 December 2013)*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

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

Throughout the financial year ended 31 December 2013, 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 and the Board all time met the requirement of the Listing Rules in regard of independent non-executive Directors to constitute one-third of an issuer's board.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

During the year, Mr. Ganjin Chen was appointed and Mr. Lei Ding has resigned as the non-executive directors of the Company with effect from 9 December 2013.

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. Accordingly, each of the independent non-executive Directors of the Company is engaged on an appointment letter for a term of three years. The appointment may be terminated by 1-month written notice.

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

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

NOMINATION COMMITTEE

MEMBERS

Mr. Zezhao Hua *(Chairman)*
Dr. Guoen Liu
Mr. Ganjin Chen *(Appointed on 9 December 2013)*
Mr. Lei Ding *(Resigned on 9 December 2013)*

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 Company has adopted a Board Diversity Policy which aims to set out the approach to achieve diversity on the Company's board of directors. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

During the financial year ended 31 December 2013, the Nomination Committee held one meeting and all the members at that time attended the meeting. The members reviewed the current composition of the Board and to discuss about the Board restructure to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The members also considered suitable candidates to be CEO and Compliance Officer to the Company respectively.

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

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

The Company established a nomination committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code.

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.

Development and financing of Directors is an ongoing process so that they can perform their duties appropriately. 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.

During the year of 2013, an in-house seminar was conducted covering the topics of director's duties under Appendix 10 and Appendix 14 of the Listing Rules and new inside information disclosure requirements under the Listing Rules and the Securities and Futures Ordinance. All Directors attended the seminar.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

FUNCTIONS

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally has 4 scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company.

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

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

DIRECTORS' ATTENDANCE RECORDS

During the financial year ended 31 December 2013, six Board meetings were held 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 during the term of office as a Director, during the year ended 31 December 2013 are set out below:

Name of Director	Attendance/Number of meetings held during the term of office of the Director concerned
Executive Director	
Dr. Zhaohua Chang	6/6
Non-Executive Directors	
Mr. Norihiro Ashida	6/6
Mr. Hiroshi Shirafuji	6/6
Mr. Ganjin Chen *(appointed on 9 December 2013)*	1/1
Mr. Lei Ding *(resigned on 9 December 2013)*	2/5
Independent Non-Executive Directors	
Mr. Zezhao Hua	6/6
Mr. Jonathan H. Chou	4/6
Dr. Guoen Liu	3/6

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 2013.

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

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

DELEGATION BY THE BOARD

BOARD COMMITTEES

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

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

The 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 an Executive Committee to oversee the day-to-day operations of the Group.

EXECUTIVE COMMITTEE

The Company consists of two geographically distinctive operational business units: Great China and Inter-Continental respectively managed by Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC").

The CEC comprises six members namely, Mr. Bo Peng (chairman of CEC), Mr. Hongbin Sun (co-chairman of CEC), Mr. Qiyi Luo, Ms. Yan Zhang, Mr. Kongrong Karl Pan and Mr. Yimin Xu, the majority are heads or vice presidents of operational departments.

The IEC comprises five members namely, Mr. Ted Davis (chairman of IEC), Mr. Jonathan Chen(co-chairman of IEC), Mr. Hongbin Sun, Mr. Qiyi Luo and Mr. Aurelio Sahagun.

The purpose of CEC and IEC 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 both CEC and IEC, both committees basically will have and may exercise all the powers and authority granted by the Board in the management of business and affairs of MicroPort Shanghai and MicroPort Orthopedics respectively.

During the year under review, CEC held meetings periodically and frequently to carry out their functions. IEC, formed in January 2014, will carry out their function in the coming years.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members namely:–

Dr. Guoen Liu *(Chairman)*
Mr. Jonathan H. Chou
Dr. Zhaohua Chang

Majority of the members are independent non-executive Directors.

The Company established a remuneration committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" in the Report of the Directors.

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

The Remuneration Committee held 1 meeting during the year ended 31 December 2013 and all the members at that time attended the meeting.

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 2013.

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 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)*
Mr. Norihiro Ashida
Mr. Zezhao Hua

The Company established an audit committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code. Two of the members 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 included 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 2013, 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 2 meetings during the year ended 31 December 2013 and all the members attended the meetings.

COMPANY SECRETARY

Ms. Yee Har Susan Lo. of Tricor Services Limited, external service provider, has been engaged by the Company as the Company Secretary. Its primary contact persons at the Company is Ms. Xun You, Board Secretary of the Company. The Company Secretary and the Board Secretary are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management. During 2013, the Company Secretary undertook over 25 hours of professional training to update her skills and knowledge.

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 pages 59 to 60 in this annual report.

For the financial year ended 31 December 2013, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (RMB'000)
KPMG	2,895

The audit service performed by KPMG related to the statutory audit of the Group's consolidated financial statements for the financial year ended 31 December 2013.

Non-audit Services

Auditors	Fees (RMB'000)
KPMG	19,997

The non-audit service performed by KPMG related to the acquisition of the OrthoRecon business, such as due diligence, tax service and other consulting service.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

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

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.

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Pursuant to Article 12.3 of the Articles of Association of the Company, an extraordinary general meeting shall be convened on the written requisition of (1) any two or more members of the Company; or (2) a recognized clearing house (or its nominees(s)) deposited at the principal place of business of the Company in Hong Kong (Level 54, Hopewell Centre, 183 Queen's Road East) for the attention of the Board or, in the event the Company ceases to have such a principal place of business in Hong Kong, the registered office of the Company (PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands) for the attention of the Board.

The written requisition shall specify the objects of the extraordinary general meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the written requisition not less than one-tenth of the paid up capital of the Company which carries the voting right at general meetings of the Company.

If the Board does not, within 21 days from the date of deposit of the written requisition, proceed duly to convene the extraordinary general meeting to be held within a further 21 days, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them, may convene the extraordinary general meeting in the same manner, as nearly as possible, as that in which extraordinary general meeting may be convened by the Board, provided that any extraordinary general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

CORPORATE GOVERNANCE REPORT

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 501 Newton Road, Zhangjiang Hi-Tech Park, Shanghai 201203, The People's Republic of China (For the attention of the Board of Directors)
Fax: (86) (21) 50801305
Email: ir@microport.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2013.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the changes that have occurred since the end of the 2013 to the date of approval of this report.

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

Shanghai, China, 31 March 2014

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 61 to 148, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

31 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013
(Expressed in Renminbi Yuan)

	Note	2013 RMB'000	2012 RMB'000
Turnover	3	**938,682**	930,962
Cost of sales		**(178,118)**	(153,129)
Gross profit		**760,564**	777,833
Other revenue	4	**43,994**	54,744
Other net income	4	**1,312**	13,154
Research and development costs		**(180,703)**	(145,849)
Distribution costs		**(158,638)**	(172,999)
Administrative expenses		**(119,208)**	(104,600)
Other operating costs	5	**(135,535)**	(5,250)
Profit from operations		**211,786**	417,033
Finance costs	5(a)	**(6,529)**	(1,675)
Profit before taxation	5	**205,257**	415,358
Income tax	6(a)	**(56,726)**	(61,378)
Profit for the year		**148,531**	353,980
Earnings per share	10		
Basic (RMB)		**0.11**	0.25
Diluted (RMB)		**0.10**	0.25

The notes on pages 71 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013
(Expressed in Renminbi Yuan)

	2013 RMB'000	2012 RMB'000
Profit for the year	**148,531**	353,980
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences of translation of financial statements of entities outside the PRC, net of nil tax	**(13,400)**	(9,232)
Other comprehensive income for the year	**(13,400)**	(9,232)
Total comprehensive income for the year	**135,131**	344,748

The notes on pages 71 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013
(Expressed in Renminbi Yuan)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Fixed assets			
– Property, plant and equipment	*11*	**820,364**	573,451
– Land use rights	*11*	**118,075**	81,642
		938,439	655,093
Intangible assets	*12*	**207,683**	149,974
Prepayments for fixed assets		**6,616**	65,404
Goodwill	*13*	**154,955**	175,492
Deferred tax assets	*22(b)*	**19,366**	15,949
		1,327,059	1,061,912
Current assets			
Inventories	*15*	**123,070**	92,654
Trade and other receivables	*16*	**383,277**	433,890
Deposits with banks	*17*	**341,219**	666,275
Cash and cash equivalents	*18*	**968,757**	413,149
		1,816,323	1,605,968
Current liabilities			
Trade and other payables	*19*	**275,693**	174,812
Interest-bearing borrowings	*20*	**179,507**	20,491
Income tax payable	*22(a)*	**17,257**	9,011
Deferred income	*23*	**83**	257
		472,540	204,571
Net current assets		**1,343,783**	1,401,397
Total assets less current liabilities		**2,670,842**	2,463,309

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013
(Expressed in Renminbi Yuan)

	Note	**2013 RMB'000**	2012 RMB'000
Non-current liabilities			
Interest-bearing borrowings	*20*	**133,069**	2,703
Deferred income	*23*	**102,886**	71,125
Other non-current liabilities	*21*	**42,729**	40,679
Deferred tax liabilities	*22(b)*	**26,759**	28,923
		305,443	143,430
NET ASSETS		**2,365,399**	2,319,879
CAPITAL AND RESERVES			
Share capital	*25(c)*	**108**	108
Reserves		**2,365,291**	2,319,771
TOTAL EQUITY		**2,365,399**	2,319,879

Approved and authorised for issue by the board of directors on 31 March 2014.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 71 to 148 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013
(Expressed in Renminbi Yuan)

	Note	**2013** **RMB'000**	2012 RMB'000
Non-current assets			
Investments in subsidiaries	*14*	**1,192,702**	884,616
Current assets			
Trade and other receivables	*16*	**55,250**	283,925
Deposits with banks	*17*	**–**	330,000
Cash and cash equivalents	*18*	**724,546**	239,041
		779,796	852,966
Current liabilities			
Trade and other payables	*19*	**98,796**	27,678
		98,796	27,678
Net current assets		**681,000**	825,288
Total assets less current liabilities		**1,873,702**	1,709,904
Non-current liabilities			
Interest-bearing borrowings	*20*	**90,876**	–
Other payables	*19*	**280,000**	–
Other non-current liabilities	*21*	**42,729**	40,679
		413,605	40,679
NET ASSETS		**1,460,097**	1,669,225

STATEMENT OF FINANCIAL POSITION

At 31 December 2013
(Expressed in Renminbi Yuan)

	Note	**2013 RMB'000**	2012 RMB'000
CAPITAL AND RESERVES	*25(a)*		
Share capital		**108**	108
Reserves		**1,459,989**	1,669,117
TOTAL EQUITY		**1,460,097**	1,669,225

Approved and authorised for issue by the board of directors on 31 March 2014.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 71 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(Expressed in Renminbi Yuan)

		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
Balance at 1 January 2012		109	1,540,920	1	(66,433)	48,582	43,935	548,041	2,115,155
Changes in equity for 2012:									
Profit for the year		–	–	–	–	–	–	353,980	353,980
Other comprehensive income		–	–	–	(9,232)	–	–	–	(9,232)
Total comprehensive income		–	–	–	(9,232)	–	–	353,980	344,748
Dividends approved in respect of the previous year	*25(b)(ii)*	–	–	–	–	–	–	(80,969)	(80,969)
Equity-settled share-based transactions	*24(d)*	–	–	–	–	16,873	–	–	16,873
Shares issued under the share option plans	*25(c)(iii)*	–	6,753	–	–	(3,127)	–	–	3,626
Repurchase of own shares	*25(c)(ii)*								
– par value paid		(1)	–	–	–	–	–	–	(1)
– premium paid		–	–	–	–	–	–	(61,393)	(61,393)
– transfer between reserves		–	–	1	–	–	–	(1)	–
Appropriation of statutory general reserve		–	–	–	–	–	35,567	(35,567)	–
Shares purchased under share award scheme	*24(c)*	–	–	–	–	(18,160)	–	–	(18,160)
Balance at 31 December 2012		108	1,547,673	2	(75,665)	44,168	79,502	724,091	2,319,879

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(Expressed in Renminbi Yuan)

	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
		Attributable to equity shareholders of the Company							
Balance at 1 January 2013		108	1,547,673	2	(75,665)	44,168	79,502	724,091	2,319,879
Changes in equity for 2013:									
Profit for the year		-	-	-	-	-	-	148,531	148,531
Other comprehensive income		-	-	-	(13,400)	-	-	-	(13,400)
Total comprehensive income		-	-	-	(13,400)	-	-	148,531	135,131
Dividends approved in respect of the previous year	*25(b)(ii)*	-	-	-	-	-	-	(89,741)	(89,741)
Equity-settled share-based transactions	*24(d)*	-	-	-	-	11,220	-	-	11,220
Shares issued under the share option plans	*25(c)(iii)*	-	12,528	-	-	(5,736)	-	-	6,792
Repurchase of own shares	*25(c)(ii)*								
– par value paid		-	-	-	-	-	-	-	-
– premium paid		-	-	-	-	-	-	(13,165)	(13,165)
– transfer between reserves		-	-	-	-	-	-	-	-
Appropriation of statutory general reserve		-	-	-	-	-	31,453	(31,453)	-
Shares purchased under share award scheme	*24(c)*	-	-	-	-	(17,049)	-	-	(17,049)
Shares granted under share award scheme	*24(c)*	-	-	-	-	12,332	-	-	12,332
Balance at 31 December 2013		108	1,560,201	2	(89,065)	44,935	110,955	738,263	2,365,399

The notes on pages 71 to 148 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 31 December 2013
(Expressed in Renminbi Yuan)

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Cash generated from operations	*18(b)*	**411,624**	352,250
Tax paid:			
– PRC income tax paid		**(53,967)**	(66,609)
– Non-PRC income tax paid		**(93)**	(55)
Net cash generated from operating activities		**357,564**	285,586
Investing activities			
Payment for the purchase of fixed assets		**(262,139)**	(294,485)
Proceeds from sale of fixed assets		**189**	219
Government grant received related to fixed assets		**23,600**	–
Payment for intangible assets		**(58,187)**	(47,827)
Placement of deposits with banks with original maturities over three months		**(232,027)**	(1,416,336)
Uplift of deposits with banks with original maturities over three months		**657,860**	1,068,855
Placement of pledged deposits		**(105,001)**	(1)
Interest received		**25,490**	21,499
Payments for acquisition of subsidiaries		**(12,000)**	(139,787)
Net cash generated from/(used) in investing activities		**37,785**	(807,863)

CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 31 December 2013
(Expressed in Renminbi Yuan)

	Note	2013 RMB'000	2012 RMB'000
Financing activities			
Proceeds from interest-bearing borrowings		**409,876**	–
Repayments of interest-bearing borrowings		**(120,590)**	(2,590)
Proceeds from shares issued under the share option plans	*25(c)(iii)*	**6,792**	3,626
Interest paid		**(3,700)**	(603)
Dividends paid to ordinary shareholders		**(89,741)**	(81,285)
Payment for repurchase of shares	*25(c)(ii)*	**(13,165)**	(61,394)
Payment for repurchase of shares under share award scheme	*24(c)*	**(17,049)**	(18,160)
Net cash generated from/ (used in) financing activities		**172,423**	(160,406)
Net increase/(decrease) in cash and cash equivalents		**567,772**	(682,683)
Cash and cash equivalents at 1 January		**413,149**	1,095,209
Effect of foreign exchange rate changes		**(12,164)**	623
Cash and cash equivalents at 31 December	*18(a)*	**968,757**	413,149

The notes on pages 71 to 148 form part of these financial statements.

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 the Group and the Company. Note 3 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 2013 comprise the Company and its subsidiaries.

As the Group's operation are primarily located in the People's Republic of China ("PRC") and most of the Group's transactions are conducted and denominated in Renminbi ("RMB"), which is the functional currency of the Company's operating subsidiaries in the PRC, the financial statements are presented in RMB, rounded to the nearest thousand, unless otherwise stated. The functional currency of the Company is United States Dollars ("US$").

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 significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs 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:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*

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

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

The Group does not have any joint arrangements and therefore the adoption does not have an impact on the Group's financial position and financial result.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

The disclosures as required by HKFRS 12 that are applicable to the Group are set out in note 14.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The Group did not hold any assets or liabilities carried at fair value as at 31 December 2013 and 2012. The adoption of HKFRS 13 does not have any material impact on these financial statements.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets and segment liabilities in note 3 as in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows 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.

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 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 5 to 10 years from the date of completion, and unexpired terms of the leases; and

– Equipment and machinery	10 years
– Office equipment, furniture and fixtures	5 to 10 years
– Motor vehicles	4 to 10 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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:

–	Diabetes technology	17 years
–	Products licences	12 to 17 years
–	Trademark	35 months
–	Capitalised development costs	5 to 10 years
–	Customer contracts and related customer relationship	1.5 to 10 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets

(i) Impairment of trade and other receivables

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 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(i) Impairment of 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;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

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 of disposal 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 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).

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 of disposal (if measurable), 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.

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 using the effective interest method, 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 as a decrease in the capital reserve. 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.

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 resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the 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 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 option expires (when it is released directly to retained profits).

Share-based payment transactions in which the company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's financial position which is eliminated on consolidation.

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.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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. 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.

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. The assets and liabilities outside the PRC 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties

(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.

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 and amortisation

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. Intangible assets are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses 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 and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Impairment

If circumstances indicate that the carrying value of investments in subsidiaries, property, plant and equipment, land use rights, goodwill and intangible assets may not be recoverable, the recoverable amount is estimated. An impairment loss is recognised when the recoverable amount has declined below the carrying amounts in accordance with HKAS 36, "Impairment of assets". 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 an indication of impairment. Determining the recoverable amount requires an estimation of the fair value less costs of disposal or the value in use of these assets or the CGU to which these assets belong. It is difficult to precisely estimate fair value of these assets because quoted market prices for most of these assets are not readily available. In determining the value in use, expected cash flows generated by the asset or the CGU to which it belong are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(d) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are 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.

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 return are only allowed under certain specific circumstances, which is determined and approved by management and within certain period of time agreed by buyer and seller.

Revenue by major category of products is as follows:

	2013 **RMB'000**	2012 RMB'000
Cardiovascular devices		
– Drug eluting stents	**687,455**	741,693
– Others	**57,530**	37,059
Endovascular devices		
– TAA/AAA stent grafts	**63,420**	55,359
– Others	**16,051**	12,002
Neurovascular devices	**28,663**	20,839
Orthopedics devices	**2,579**	33,142
Diabetes and endocrinal devices	**11,370**	9,746
Electrophysiology devices	**18,337**	9,703
Surgical devices	**53,277**	11,419
	938,682	930,962

For the year ended 31 December 2013, the Group's customer base includes one customer (2012: one customer) with whom transactions have exceeded 10% of the Group's revenue. In 2013, revenue from sales of cardiovascular devices and electrophysiology devices to this customer is RMB151,952,000 (2012: RMB196,241,000 to this customer) and arose from China.

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

(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 seven reportable segments.

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

- Cardiovascular devices business: sales, manufacture, research and development of cardiovascular devices, such as drug eluting stents.
- Endovascular devices business: sales, manufacture, research and development of endovascular devices.
- Neurovascular devices business: sales, manufacture, research and development of neurovascular devices.
- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.
- Diabetes care and endocrinal management business: sales, manufacture, research and development of devices related to diabetes mellitus.
- Electrophysiology devices business: sales, manufacture, research and development of electrophysiology devices.
- Surgical management business: sales, manufacture, research and development of surgical 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, intangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables, 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 and PRC dividends withholding tax are excluded from segment net profit/(loss).

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.

	2013							
	Cardiovascular devices business RMB'000	Endovascular devices business RMB'000	Neurovascular devices business RMB'000	Orthopedics devices business RMB'000	Diabetes care and endocrinal business RMB'000	Electrophysiology devices business RMB'000	Surgical management business RMB'000	Total RMB'000
Revenue from external customers	744,985	79,471	28,663	2,579	11,370	18,337	53,277	938,682
Segment net profit/(loss)	291,267	21,018	9,746	(38,925)	(5,705)	(12,853)	596	265,144
Depreciation and amortisation for the year	28,441	1,594	1,123	8,923	1,726	1,029	4,203	47,039
Income tax	47,135	5,911	1,662	1,929	-	-	89	56,726
(Reversal)/increase of inventory provision	(7,115)	-	-	3,922	(116)	-	609	(2,700)
Impairment losses of non-current assets								
– Intangible assets	-	-	-	3,066	-	-	-	3,066
– Goodwill	-	-	-	20,537	-	-	-	20,537
Reportable segment assets	1,798,455	54,332	27,917	388,358	36,795	55,993	249,240	2,611,090
Additions to non-current segment assets	293,906	14,907	24,036	22,632	553	12,934	22,424	391,392
Reportable segment liabilities	528,459	1,895	30,091	94,574	29,531	7,155	64,183	755,888

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2012							
	Cardiovascular devices business RMB'000	Endovascular devices business RMB'000	Neurovascular devices business RMB'000	Orthopedics devices business RMB'000	Diabetes care and endocrinal business RMB'000	Electrophysiology devices business RMB'000	Surgical management business RMB'000	Total RMB'000
Revenue from external customers	778,752	67,361	20,839	33,142	9,746	9,703	11,419	930,962
Segment net profit/(loss)	366,148	17,015	3,859	(9,677)	(12,027)	(17,243)	(343)	347,732
Depreciation and amortisation for the year	27,051	1,424	1,287	8,300	1,791	2,081	1,477	43,411
Income tax	57,649	2,835	764	(11)	–	–	141	61,378
Increase of inventory provision	3,422	–	–	–	792	–	–	4,214
Impairment losses of non-current assets								
– Property, plant and equipment	883	–	–	–	–	–	–	883
Reportable segment assets	1,299,833	54,120	31,198	398,870	23,633	52,221	261,390	2,121,265
Additions to non-current segment assets	252,673	37,192	21,411	39,304	1,246	13,345	149,823	514,994
Reportable segment liabilities	201,018	83	156	51,810	11,503	1,574	100,131	366,275

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2013 RMB'000	2012 RMB'000
Profit		
Reportable segment net profit	265,144	347,732
Equity-settled share-based payment expenses (note 24(d))	(11,220)	(16,873)
Unallocated exchange gain	5,500	12,238
Unallocated income and expenses	(110,893)	10,883
Consolidated profit for the year	148,531	353,980
Assets		
Reportable segment assets	2,611,090	2,121,265
Elimination of inter-segment receivables	(200,556)	(34,000)
	2,410,534	2,087,265
Unallocated corporate assets:		
– Cash and cash equivalents	724,604	239,101
– Deposits with banks	–	330,000
– Others	8,244	11,514
	732,848	580,615
Consolidated total assets	3,143,382	2,667,880
Liabilities		
Reportable segment liabilities	755,888	366,275
Elimination of inter-segment payables	(200,556)	(34,000)
	555,332	332,275
Deferred tax liabilities (note 22(b))	12,865	12,865
Unallocated corporate liabilities	209,786	2,861
Consolidated total liabilities	777,983	348,001

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.

	2013 RMB'000	2012 RMB'000
The PRC (country of domicile)	**898,781**	886,634
Asia	**22,295**	23,485
South America	**16,036**	16,785
Europe	**1,570**	3,868
Africa	**–**	190
	39,901	44,328
	938,682	930,962

4 OTHER REVENUE AND NET INCOME

	2013 RMB'000	2012 RMB'000
Other revenue		
Government grants	**29,931**	23,993
Interest income on bank deposits	**14,063**	30,674
Others	**–**	77
	43,994	54,744

Majority of the government grants are subsidies received from government for encouragement of research and development projects and continuing business expansion.

	2013 RMB'000	2012 RMB'000
Other net income		
Net loss on disposal of property, plant and equipment	**(33)**	(402)
Net foreign exchange gain	**165**	13,556
Others	**1,180**	–
	1,312	13,154

5 PROFIT BEFORE TAXATION

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

	2013 RMB'000	2012 RMB'000
(a) Finance costs		
Interest on borrowings	6,035	1,143
Others	945	532
Total interest expense on financial liabilities not at fair value through profit or loss	6,980	1,675
Less: interest expense capitalised into construction in progress*	(451)	–
	6,529	1,675

* The borrowing costs have been capitalised at a rate of 6.4% per annum (2012: nil).

	2013 RMB'000	2012 RMB'000
(b) Staff costs		
Equity-settled share-based payment expenses		
– Share option plans (note 24(d))	11,220	16,873
– Share award schemes (note 24(c))	12,332	–
Sub-total	23,552	16,873
Contributions to defined contribution retirement plan	42,848	36,465
Salaries, wages and other benefits	225,417	154,791
	291,817	208,129

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiaries in the PRC participated in the defined contribution retirement schemes arranged by the governmental organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. 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.

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

5 PROFIT BEFORE TAXATION (CONTINUED)

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

	2013 RMB'000	2012 RMB'000
(c) Other items		
Amortisation		
– land use rights (note 11)	**2,401**	1,278
– intangible assets (note 12)	**6,493**	4,429
	8,894	5,707
Depreciation (note 11)	**35,262**	36,348
Impairment losses:		
– property, plant and equipment (note 11)	**–**	883
– intangible assets (note 12)	**3,066**	–
– goodwill (note 13)	**20,537**	–
– trade and other receivables (note 16(b))	**5,250**	6,728
	28,853	7,611
Operating lease charges: minimum lease payments		
– hire of property and plant	**7,272**	7,012
Auditors' remuneration:		
– audit services	**2,895**	2,543
– non-audit services	**19,997**	–
	22,892	2,543
Research and development costs (other than amortisation costs of intangible assets)	**180,703**	145,849
Cost of inventories (note 15(b))	**215,586**	186,439
Transactions costs for acquisitions	**108,855**	1,783

Impairment loss on goodwill and intangible assets and transaction costs for acquisitions are all included in other operating costs.

Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of RMB80,271,000 (2012: RMB69,580,000) and depreciation of the relevant property, plant and equipment of RMB8,791,000 (2012: RMB10,270,000), which are included in the total staff cost as disclosed in note 5(b), depreciation as disclosed in note 5(c) and cost of inventories of RMB37,468,000, as disclosed in note 15(b) respectively.

5 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items (continued)

Cost of inventories includes RMB79,722,000 (2012: RMB69,385,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

Transactions costs for acquisitions include auditors' remuneration of RMB19,997,000 (2012: nil) for the non-audit relating to the acquisition of the OrthoRecon business (note 28), the amount of which is also disclosed in note 5(c).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**60,511**	63,293
Under provision in respect of prior years	**1,770**	2,272
	62,281	65,565
Current tax – Other than the PRC		
Provision for the year	**26**	5
Deferred tax		
Origination and reversal of temporary differences	**(5,581)**	(4,192)
	56,726	61,378

Pursuant to the rules and regulations of Cayman Islands and British Virgin Islands, the Company and its subsidiaries located in British Virgin Islands are not subject to any income tax in these jurisdictions.

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2012:16.5%) of the estimated assessable profits.

Pursuant to the Corporate Income Tax Law of the People's Republic of China ("PRC"), all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25% except for the following entities:

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

Shanghai MicroPort Medical (Group) Co., Ltd. (formerly named "MicroPort Medical (Shanghai) Co., Ltd.") ("MP Shanghai") and Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") obtained the renewed certificate of "advanced and new technology enterprise" dated 17 August 2011 and 13 November 2011 respectively with an effective period of three years. 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%. The provision for PRC corporate income tax for MP Shanghai and Dongguan Kewei is calculated by applying the income tax rate of 15% (2012: 15%).

The CIT law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%. The Group's investments in the PRC subsidiaries do not meet those requirements for a preferential rate of 5%.

Taxation for other overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2013 **RMB'000**	2012 RMB'000
Profit before taxation	**205,257**	415,358
PRC statutory income tax rate	**25%**	25%
Computed "expected" income tax expense	**51,314**	103,840
Effect of PRC preferential tax rate	**(35,983)**	(39,476)
Effect of Netherlands and United States' tax rate differential	**(8)**	(5)
Effect of entities not subject to income tax	**31,750**	(5,682)
Effect of non-deductible equity-settled share-based payment expenses	**2,805**	4,218
Effect of other non-deductible expenses	**7,210**	2,169
Effect of deemed taxable income (note)	**1,813**	2,617
Effect of super-deduction on research and development expenses	**(10,585)**	(14,932)
Effect of tax losses not recognised	**6,640**	6,803
Under provision in respect of prior years	**1,770**	2,272
Others	**–**	(446)
Actual income tax expense	**56,726**	61,378

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.

7 DIRECTORS' REMUNERATION

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

	2013					
	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 (note)	–	1,862	2,215	–	2,098	6,175
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Lei Ding (resigned on 9 December 2013)	–	–	–	–	–	–
Ganjin Chen (appointed on 9 December 2013)	–	–	–	–	–	–
Independent non-executive directors						
Zezhao Hua	150	–	–	–	–	150
Jonathan Chou	180	–	–	–	–	180
Guoen Liu	150	–	–	–	–	150
	480	1,862	2,215	–	2,098	6,655

7 DIRECTORS' REMUNERATION (CONTINUED)

	2012					
	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 (note)	–	1,854	–	–	4,061	5,915
Yan Zhang (resigned on 20 September 2012)	–	1,325	–	42	1,204	2,571
Hongbin Sun (resigned on 20 September 2012)	–	934	–	42	1,684	2,660
Qiyi Luo (resigned on 20 September 2012)	–	1,108	–	–	835	1,943
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Lei Ding	–	–	–	–	–	–
Independent non-executive directors						
Zezhao Hua	150	–	–	–	–	150
Jonathan Chou	180	–	–	–	–	180
Guoen Liu	150	–	–	–	–	150
	480	5,221	–	84	7,784	13,569

Note: RMB1,200,000 and RMB2,215,000 out of Zhaohua Chang's remuneration was paid to We'Tron Capital Ltd (2012: RMB1,200,000) and donated to Maxwell Maxcare Science Foundation Limited in the Company's name, respectively.

During the year ended 31 December 2013, 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 (2012: Nil).

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2012: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2012: four) individual are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	**5,481**	5,601
Retirement scheme contributions	**181**	112
Discretionary bonuses	**3,971**	–
Equity-settled share-based payment expenses	**2,272**	5,835
	11,905	11,548

The emoluments of the four (2012: four) individuals with the highest emoluments are within the following bands:

	2013 Number of Individuals	2012 Number of Individuals
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**2**	–
HK$4,000,001 to HK$4,500,000	**1**	2
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**–**	–

During the year ended 31 December 2013, 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 (2012: Nil).

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB104,743,000 (2012: a profit of RMB23,192,000) which has been dealt with in the financial statements of the Company (note 25(a)).

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 RMB148,531,000 (2012: RMB353,980,000) and the weighted average of 1,401,895,000 ordinary shares (2012: 1,414,872,000 ordinary shares).

(i) Weighted average number of ordinary shares

	2013	2012
	'000	'000
Issued ordinary shares at 1 January	**1,406,730**	1,420,483
Effect of share options exercised	**3,587**	1,803
Effect of shares repurchased	**(8,422)**	(7,414)
Weighted average number of ordinary shares at 31 December	**1,401,895**	1,414,872

(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 RMB148,531,000 (2012: RMB353,980,000) and the weighted average number of ordinary shares of 1,434,739,000 shares (2012: 1,435,679,000 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option plan calculated as follows:

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

	2013	2012
	'000	'000
Weighted average number of ordinary shares during the year	**1,401,895**	1,414,872
Effect of deemed issue of shares under the Company's option scheme at nil consideration	**32,844**	20,807
Weighted average number of ordinary shares during the year	**1,434,739**	1,435,679

11 FIXED ASSETS

(a) The Group

	Buildings held for own use RMB'000	Leasehold improvements RMB'000	Equipment and machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Land use rights RMB'000	Total RMB'000
Cost:										
At 1 January 2012	103,939	37,256	152,797	23,026	15,420	13,411	104,426	450,275	41,204	491,479
Exchange adjustments	–	–	–	1	–	5	–	6	–	6
Transfer	86,116	904	15,211	1,214	448	–	(136,740)	(32,847)	32,847	–
Additions	15,659	2,758	20,678	4,950	1,225	3,793	238,267	287,330	–	287,330
Acquisition of subsidiaries	8,288	1,748	5,069	341	934	23	19,660	36,063	11,804	47,867
Disposals	–	–	(1,403)	(482)	(294)	–	–	(2,179)	–	(2,179)
At 31 December 2012	214,002	42,666	192,352	29,050	17,733	17,232	225,613	738,648	85,855	824,503
At 1 January 2013	**214,002**	**42,666**	**192,352**	**29,050**	**17,733**	**17,232**	**225,613**	**738,648**	**85,855**	**824,503**
Exchange adjustments	**–**	**–**	**–**	**(12)**	**–**	**3**	**–**	**(9)**	**–**	**(9)**
Transfer	**6,221**	**8,313**	**4,053**	**209**	**–**	**154**	**(18,950)**	**–**	**–**	**–**
Additions	**4,468**	**5,040**	**64,293**	**5,829**	**1,051**	**1,713**	**202,896**	**285,290**	**38,834**	**324,124**
Disposals	**–**	**(14)**	**(124)**	**(454)**	**(413)**	**–**	**–**	**(1,005)**	**–**	**(1,005)**
At 31 December 2013	**224,691**	**56,005**	**260,574**	**34,622**	**18,371**	**19,102**	**409,559**	**1,022,924**	**124,689**	**1,147,613**
Accumulated depreciation and amortisation:										
At 1 January 2012	9,606	14,411	67,910	12,105	9,254	11,133	–	124,419	2,935	127,354
Exchange adjustments	–	–	–	1	–	5	–	6	–	6
Charge for the year	3,974	6,215	19,842	3,282	1,914	2,477	–	37,704	1,278	38,982
Written back on disposals	–	–	(596)	(434)	(279)	–	–	(1,309)	–	(1,309)
At 31 December 2012	13,580	20,626	87,156	14,954	10,889	13,615	–	160,820	4,213	165,033
At 1 January 2013	**13,580**	**20,626**	**87,156**	**14,954**	**10,889**	**13,615**	**–**	**160,820**	**4,213**	**165,033**
Exchange adjustments	**–**	**–**	**–**	**(2)**	**–**	**3**	**–**	**1**	**–**	**1**
Charge for the year	**5,941**	**6,984**	**16,631**	**4,543**	**2,184**	**1,862**	**–**	**38,145**	**2,401**	**40,546**
Written back on disposals	**–**	**(1)**	**(69)**	**(365)**	**(344)**	**–**	**–**	**(779)**	**–**	**(779)**
At 31 December 2013	**19,521**	**27,609**	**103,718**	**19,130**	**12,729**	**15,480**	**–**	**198,187**	**6,614**	**204,801**

11 FIXED ASSETS (CONTINUED)

(a) The Group (continued)

For the year ended 31 December 2013, depreciation charge of RMB2,883,000 (2012: RMB1,356,000) has been included in the capitalised development cost in intangible assets. Amortisation of land use right of RMB2,401,000 (2012: RMB1,278,000) and depreciation charge of RMB35,262,000 (2012: RMB36,348,000) has been included in the consolidated statement of profit or loss for the year ended 31 December 2013.

	Buildings held for own use	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Motor vehicles	Computer software	Construction in progress	Sub-total	Land use rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Impairment:										
At 1 January 2012	–	–	3,559	58	126	–	–	3,743	–	3,743
Charge for the year	–	–	883	–	–	–	–	883	–	883
Written back on disposals	–	–	(245)	(4)	–	–	–	(249)	–	(249)
At 31 December 2012	–	–	4,197	54	126	–	–	4,377	–	4,377
At 1 January 2013	**–**	**–**	**4,197**	**54**	**126**	**–**	**–**	**4,377**	**–**	**4,377**
Written back on disposals	**–**	**–**	**–**	**(4)**	**–**	**–**	**–**	**(4)**	**–**	**(4)**
At 31 December 2013	**–**	**–**	**4,197**	**50**	**126**	**–**	**–**	**4,373**	**–**	**4,373**
Net book value:										
At 31 December 2013	**205,170**	**28,396**	**152,659**	**15,442**	**5,516**	**3,622**	**409,559**	**820,364**	**118,075**	**938,439**
At 31 December 2012	200,422	22,040	100,999	14,042	6,718	3,617	225,613	573,451	81,642	655,093

11 FIXED ASSETS (CONTINUED)

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

	The Group	
	2013 **RMB'000**	2012 RMB'000
In the PRC		
– medium-term leases	**323,245**	282,064
Representing:		
Buildings held for own use, carried at cost	**205,170**	200,422
Land use rights	**118,075**	81,642
	323,245	282,064

(c) As at 31 December 2013, land use rights and construction in progress with net book value of RMB30,428,000 and RMB321,745,000 respectively (2012: buildings held for own use with net book value of RMB30,752,000) have been pledged as security for a banking facility (see note 20(a)).

As at 31 December 2013, buildings held for own use with net book value of RMB24,818,000 (2012: RMB25,607,000) have been pledged as security for a SMFA loan (see note 20(b)).

(d) Change in estimates

In order to present a fairer and more appropriate view of the financial position and operating results of the Group where the depreciation period of equipment and machinery is aligned with its actual useful lives, the Group revised its accounting estimates on the useful lives of equipment and machinery not fully depreciated in the PRC in accordance with HKFRS, based on the technical assessment report prepared by the Group's internal engineers and technicians, as well as the accounting estimates adopted by other major Chinese companies in the medical equipment industry. The Group adopted the change from 1 January 2013.

	Estimated useful life	
	After 1 January 2013	**Before 1 January 2013**
Equipment and machinery	10 years	5 to 10 years

The approximate effect of the change in estimates on profit before income tax expense in current and future years is as follows:

	Year				
	2013	2014	2015	2016	2017 and afterwards
Increase/(Decrease) in profit before income tax expense	13.7 million	12.2 million	7.3 million	2.3 million	(35.5 million)

12 INTANGIBLE ASSETS

The Group

	Diabetes technology RMB'000	Products licences RMB'000	Trademark RMB'000	Capitalised development costs RMB'000	Customer contracts and related customer relationship RMB'000	Total RMB'000
Cost						
At 1 January 2012	8,128	37,322	300	41,970	9,279	96,999
Acquisition of subsidiaries	–	19,524	–	–	7,518	27,042
Additions through internal development	–	–	–	41,729	–	41,729
At 31 December 2012	8,128	56,846	300	83,699	16,797	165,770
At 1 January 2013	8,128	56,846	300	83,699	16,797	165,770
Additions through internal development	–	–	–	67,268	–	67,268
At 31 December 2013	8,128	56,846	300	150,967	16,797	233,038
Accumulated amortisation:						
At 1 January 2012	1,673	783	291	–	77	2,824
Charge for the year	–	3,211	9	–	1,209	4,429
At 31 December 2012	1,673	3,994	300	–	1,286	7,253
At 1 January 2013	1,673	3,994	300	–	1,286	7,253
Charge for the year	–	4,193	–	–	2,300	6,493
At 31 December 2013	1,673	8,187	300	–	3,586	13,746
Impairment:						
At 1 January 2012	6,455	2,088	–	–	–	8,543
Charge for the year	–	–	–	–	–	–
At 31 December 2012	6,455	2,088	–	–	–	8,543
At 1 January 2013	6,455	2,088	–	–	–	8,543
Charge for the year	–	3,066	–	–	–	3,066
At 31 December 2013	6,455	5,154	–	–	–	11,609
Net book value:						
At 31 December 2013	–	43,505	–	150,967	13,211	207,683
At 31 December 2012	–	50,764	–	83,699	15,511	149,974

Capitalised development cost primarily related to cardiovascular, electrophysiology and neurovascular devices business segments.

12 INTANGIBLE ASSETS (CONTINUED)

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

As a result of new product development, orthopedics devices business segment ceased selling the old series of a major orthopedics device product (the "old orthopedics product"). Accordingly, management estimated the recoverable amount of the product licence associated with the old orthopedics product approximates zero and a full impairment loss provision of RMB3,066,000 had been made in 2013.

13 GOODWILL

The Group

	RMB'000
Cost:	
At 1 January 2012	66,571
Additions	111,026
At 31 December 2012, 1 January 2013 and 31 December 2013	177,597
Accumulated impairment losses:	
At 1 January 2012	2,105
Impairment loss for the year	–
At 31 December 2012 and 1 January 2013	2,105
Impairment loss for the year	20,537
At 31 December 2013	22,642
Carrying amount:	
At 31 December 2013	154,955
At 31 December 2012	175,492

13 GOODWILL (CONTINUED)

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generation units ("CGU") identified according to place of operations and operating segment as follows:

	2013 **RMB'000**	2012 RMB'000
Unallocated goodwill	**–**	109,026
Cardiovascular devices business	**31,485**	–
Surgical management business	**77,541**	–
Orthopedics devices business	**45,929**	66,466
	154,955	175,492

During the six months ended 30 June 2013, as a result of new product development, orthopedics devices business segment ceased selling the old series of a major orthopedics device products while the registration of the new series with relevant authorities is being processed. These factors resulted to the significant declined sales in the orthopedics devices business segment which is an indicator of impairment. The management estimated the recoverable amount of those related assets which generates cash inflows independently from other assets of the Group. The carrying value of the cash-generating unit exceeds its recoverable amount by RMB20,537,000 as at 30 June 2013. Accordingly, an impairment loss of RMB20,537,000 was recognised in respect of this cash-generating unit and has been allocated to reduce the carrying amount of the goodwill.

As at 30 June 2013, the recoverable amount of the cash-generating unit of the orthopedics devices business is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the long-term inflation rate in the PRC. The cash flows are discounted using a discount rate of 29%. The discount rate used is pre-tax and reflected specific risks relating to the relevant cash-generating unit, including but not limited to the risk that the registration process of the new series of orthopedics device products with relevant authorities may be longer than management's estimates.

As at 31 December 2013, the recoverable amounts of the CGUs of cardiovascular devices business, surgical management business and orthopedics devices business are determined based on value-in-use calculations, which are all higher than the carrying amounts of the respective CGUs. The key assumptions for the value in use calculations are as follows, which are based on either past experience or external sources of information:

	Cardiovascular devices business	**Surgical management business**	**Orthopedics devices business**
Annualised revenue growth rate during the forecast period	20%-30%	15%-20%	5%-79%
Gross profit ratio	18%-35%	50%-61%	59%-68%
Estimated weighted average growth rate	3%	3%	3%
Discount rate	25%	19%	22%

These calculation use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the long-term inflation rate in the PRC. The discount rate used are pre-tax and reflected specific risks relating to the relevant cash-generating units. Specifically for orthopedics device business, the rate used has taken into consideration that the Group has recently obtained the registration approval of the new series of orthopedics device products from the relevant authorities in the PRC.

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**1,192,702**	884,616

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 Shanghai (上海微創醫療器械(集團)有限公司，原名“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	RMB58,000,000	–	100	Manufacturing, distribution, research and development of medical devices
MicroPort Lifesciences (Beijing) Co., Ltd. (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	RMB195,000,000	–	100	Manufacturing, distribution, research and development of orthopedics devices
Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司)*	The PRC, 31 August 2010	RMB45,000,000	–	100	Distribution, research and development of electrophysiology devices
Suzhou Health Medical Appliance Co., Ltd. ("Suzhou Health") (蘇州海歐斯醫療器械有限公司)*	The PRC, acquired on 29 November 2011	RMB30,827,703	–	100	Manufacturing, distribution, research and development of orthopedics devices

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
MicroPort Orthopedics (Suzhou) Co., Ltd. (微創骨科醫療科技(蘇州)有限公司)*	The PRC, 30 March 2012	USD30,500,000	–	100	Distribution, research and development of orthopedics devices
MicroPort Endovascular (Shanghai) Co., Ltd. (微創心脈醫療科技(上海)有限公司)*	The PRC, 17 August 2012	RMB45,000,000	–	100	Distribution, research and development of endovascular Devices
Dongguan Kewei (東莞科威醫療器械有限公司)*	The PRC, acquired on 20 September 2012	RMB45,000,000	–	100	Manufacturing, distribution, research and development of surgical devices
D-pulse Medical (Beijing) Co., Ltd. ("D-pulse") (龍脈醫療器械(北京)有限公司)*	The PRC, acquired on 5 November 2012	USD2,000,000	–	100	Manufacturing, distribution, research and development of cardiovascular 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 2013 RMB'000	The Group 2012 RMB'000
Raw materials	**56,759**	40,101
Work in progress	**16,745**	15,374
Finished goods	**49,566**	37,179
	123,070	92,654

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	
	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories sold	**180,818**	148,915
(Reversal)/increase of inventory provision	**(2,700)**	4,214
Cost of inventories sold	**178,118**	153,129
Cost of inventories directly recognised as research and development costs and distribution costs	**37,468**	33,310
	215,586	186,439

In 2013, RMB2,700,000 has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the year, being the amount of reversal of a write-down of inventories to estimated net realisable value, net of the write-down of other inventories in 2013.

This reversal arose due to an increase in the estimated net realisable value of certain materials as a result of a change in estimated future consumption volume of the related materials.

16 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors:				
– third party customers	**355,110**	405,025	**–**	–
– related parties (note 29(b))	**7,509**	5,962	**–**	–
	362,619	410,987	**–**	–
Less: Allowance for doubtful debts (note 16(b))	**(13,175)**	(7,925)	**–**	–
	349,444	403,062	**–**	–
Other debtors	**18,832**	20,793	**8,233**	11,500
Amount due from subsidiaries	**–**	–	**47,017**	272,425
Loans and receivables	**368,276**	423,855	**55,250**	283,925
Deposits and prepayments	**15,001**	10,035	**–**	–
	383,277	433,890	**55,250**	283,925

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

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Less than 1 month	**95,992**	93,736
1 to 3 months	**145,717**	139,144
3 to 12 months	**87,865**	159,246
More than 12 months	**19,870**	10,936
	349,444	403,062

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).

(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	
	2013	2012
	RMB'000	RMB'000
At 1 January	**7,925**	2,336
Impairment loss recognised	**5,250**	6,728
Uncollectible amounts written off	**–**	(1,139)
At 31 December	**13,175**	7,925

The Group's trade debtors of RMB13,175,000 (2012: RMB7,925,000) were individually determined to be impaired as at 31 December 2013. 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.

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	**278,666**	353,313
Less than 1 month past due	**21,233**	6,910
1 to 3 months past due	**10,864**	10,357
More than 3 months past due	**38,681**	32,482
	70,778	49,749
	349,444	403,062

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

17 DEPOSITS WITH BANKS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Deposits with original maturities over three months	**231,938**	661,995	**–**	330,000
Pledged deposits	**109,281**	4,280	**–**	–
	341,219	666,275	**–**	330,000

Included in pledged deposits at 31 December 2013 were RMB651,000 (2012: RMB652,000) and RMB105,000,000 (2012: nil) which were pledged as security for the long term loan from Shanghai Municipal Financial Administration ("SMFA") (note 20(b)) and a banking facility (note 20(a)), respectively.

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**968,757**	413,149	**724,546**	239,041

As at 31 December 2013, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB236,101,000 (2012: RMB335,568,000). 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.

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

	Note	**2013**	2012
		RMB'000	RMB'000
Profit before taxation		**205,257**	415,358
Adjustments for:			
Amortisation of land use rights	*5(c)*	**2,401**	1,278
Amortisation of intangible assets	*5(c)*	**6,493**	4,429
Depreciation	*5(c)*	**35,262**	36,348
Impairment loss on property, plant and equipment	*5(c)*	**–**	883
Impairment loss on intangible assets	*5(c)*	**3,066**	–
Impairment loss on goodwill	*5(c)*	**20,537**	–
Finance costs	*5(a)*	**5,584**	1,143
Interest income	*4*	**(14,063)**	(30,674)
Loss on sale of property, plant and equipment	*4*	**33**	402
Equity-settled share-based payment expenses	*5(b)*	**23,552**	16,873
Changes in working capital:			
Increase in inventories		**(30,416)**	(3,124)
Increase/(decrease)in trade and other receivables		**42,179**	(90,773)
Increase/(decrease) in trade and other payables		**103,752**	(4,896)
Increase in deferred income		**7,987**	5,003
Cash generated from operations		**411,624**	352,250

19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Trade payables	**72,481**	58,083	**–**	–
Other payables and accrued charges	**197,076**	113,612	**71,903**	2,316
Amounts due to subsidiaries	**–**	–	**26,353**	24,817
Dividends payable to ordinary shareholders	**540**	545	**540**	545
	270,097	172,240	**98,796**	27,678
Advances received	**5,596**	2,572	**–**	–
	275,693	174,812	**98,796**	27,678
Non-current				
Amounts due to a subsidiary (note)	**–**	–	**280,000**	–

Note: Pursuant to an agreement between the Company and MP Shanghai in August 2013, the Company obtained an unsecured loan of RMB280 million from MP Shanghai. The loan carries interest at annual rate of 2% and is repayable in August 2016.

All of the above balances classified as current liabilities are expected to be settled within one year.

An ageing analysis of the trade payables based on invoice date is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 month	**51,135**	47,320
Over 1 month but within 3 months	**9,921**	2,846
Over 3 months but within 6 months	**2,254**	1,032
Over 6 months but within 1 year	**9,171**	6,885
	72,481	58,083

20 INTEREST-BEARING BORROWINGS

At 31 December 2013, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Within 1 year or on demand	**179,507**	20,491	**–**	–
After 1 year but within 2 years	**10,522**	506	**–**	–
After 2 year but within 5 years	**122,547**	1,615	**90,876**	–
After 5 years	**–**	582	**–**	–
	133,069	2,703	**90,876**	–
	312,576	23,194	**90,876**	–

At 31 December 2013, the interest-bearing borrowings comprise:

		The Group		The Company	
	Note	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Bank loans					
– secured	*(a)*	**140,876**	20,000	**90,876**	–
– unsecured	*(a)*	**169,000**	–	**–**	–
		309,876	20,000	**90,876**	–
Secured loan from SMFA	*(b)*	**2,700**	3,194	**–**	–
		312,576	23,194	**90,876**	–

20 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) Bank loans

At 31 December 2013, a banking facility of the Company of RMB90,876,000 is secured by mortgages over MP Shanghai's deposits with banks of RMB105,000,000.

At 31 December 2013, the banking facilities of MP Shanghai of RMB50,000,000 are secured by mortgages over certain land use rights and construction in progress with an aggregate carrying value of RMB30,428,000 and RMB321,745,000 respectively.

One of the Group's banking facilities of RMB69,000,000 is subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenant, drawn down would become payable on demand. The Group regularly monitors its compliance with the covenants. As at 31 December 2013 none of the covenants relating to drawn down facilities had been breached.

(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 2013 amounted to RMB117,150 (2012: RMB105,570).

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.

The SMFA loan is secured by (i) the Group's buildings held for own use with net book value of RMB24,818,000 at 31 December 2013 (2012: RMB25,607,000) (see note 11(c)); and (ii) the Group's deposits with banks of RMB651,000 at 31 December 2013 (2012: RMB652,000) (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 RMB96,000 (2012: RMB114,000) and related government grant income of RMB96,000 (2012: RMB114,000) were recognised in the consolidated statement of profit or loss for the year ended 31 December 2013.

21 OTHER NON-CURRENT LIABILITIES

Pursuant to the contractual agreements (the "Agreements") relating to the acquisition of Dongguan Kewei, the Group granted 4,000,000 share options (see note 24(b)(i)) to a seller of Dongguan Kewei (the "Seller"). The options vest on the fourth anniversary of the options grant date as defined in the Agreements (the "Grant Date").

Under the Agreements, the Seller is obligated to exercise the share options in its entirety with a total exercise payment of RMB10,595,000 (the "Exercise Payment") and to sell all the shares obtained from the exercise of these share options within 22 trading days commencing from the fourth anniversary of the Grant Date through an agent jointly designated by the Group and the Seller (the "Mandatory Share Sale"). If the proceeds from the Mandatory Share Sale less the Exercise Payment (the "Option Realisable Value") be lower than RMB48,915,600 (the "Specified Amount"), the Group should make an additional payment to the Seller in cash, being the difference between the Option Realisable Value and the Specified Amount and such payment will be no higher than the Specified Amount. If the Option Realisable Value exceed the Specified Amount, the Seller should pay such excess amounts to the Group in cash.

Upon the completion of this acquisition, a non-current liability of RMB40,182,000, being the present value of the Specified Amount on that date using a discount rate of 5.04%, has been recognised. During the year ended 31 December 2013, an interest of RMB2,050,000 has been accreted to the non-current liability with a corresponding amount included in the consolidated statement of profit or loss (2012: RMB497,000).

22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provision for PRC CIT for the year	**62,281**	65,565	**–**	–
Provisional tax paid	**(44,946)**	(56,588)	**–**	–
	17,335	8,977	**–**	–
Tax recoverable by the subsidiary outside of the PRC	**(78)**	(12)	**–**	–
	17,257	8,965	**–**	–
Balance of profits Tax provision relating to prior years	**–**	46	**–**	–
	17,257	9,011	**–**	–

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

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

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	Withholding tax on retained profits of a PRC subsidiary RMB'000	Fair value adjustments in respect of net assets acquired in business combinations RMB'000	Others RMB'000	Total RMB'000
Deferred tax arising from:						
At 1 January 2012	(418)	(2,031)	12,865	12,425	(9,225)	13,616
Acquisition of subsidiaries	(758)	–	–	4,592	(284)	3,550
Credited to profit or loss	(691)	(84)	–	(959)	(2,458)	(4,192)
At 31 December 2012	(1,867)	(2,115)	12,865	16,058	(11,967)	12,974
At 1 January 2013	**(1,867)**	**(2,115)**	**12,865**	**16,058**	**(11,967)**	**12,974**
(Credited)/charged to profit or loss	**(196)**	**1,362**	**–**	**(2,164)**	**(4,583)**	**(5,581)**
At 31 December 2013	**(2,063)**	**(753)**	**12,865**	**13,894**	**(16,550)**	**7,393**

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

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

Reconciliation to the consolidated statement of financial position:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Net deferred tax assets recognised in the statement of financial position	**(19,366)**	(15,949)	**–**	–
Net deferred tax liabilities recognised in the statement of financial position	**26,759**	28,923	**–**	–
	7,393	12,974	**–**	–

(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 RMB127,486,000 at 31 December 2013 (2012: RMB101,893,000), 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 2013, tax losses of RMB7,322,000, RMB25,417,000, RMB34,927,000, RMB29,813,000 and RMB30,007,000 will expire on 31 December 2014, 2015, 2016, 2017 and 2018, respectively.

(d) Deferred tax liabilities not recognised

As at 31 December 2013, no deferred tax liability was recognised in respect of the temporary differences relating to the undistributed profits of PRC subsidiaries amounting to RMB1,181,936,000 (2012: RMB864,687,000), as the Group controls the dividend policy of these subsidiaries and has determined that such profits will not be distributed in the foreseeable future.

23 DEFERRED INCOME

The movements of deferred income are as follows:

The Group

	Government subsidies for research and development projects (Note) RMB'000	Government grant through low-interest loans RMB'000	Total RMB'000
At 1 January 2012	46,273	469	46,742
Additions during the year	33,503	–	33,503
Government grant recognised as other revenue	(8,749)	(114)	(8,863)
At 31 December 2012	71,027	355	71,382
At 1 January 2013	**71,027**	**355**	**71,382**
Additions during the year	**40,980**	**–**	**40,980**
Government grant recognised as other revenue	**(9,297)**	**(96)**	**(9,393)**
At 31 December 2013	**102,710**	**259**	**102,969**

	2013 RMB'000	2012 RMB'000
Represented by:		
Current portion	**83**	257
Non-current portion	**102,886**	71,125
	102,969	71,382

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

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 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. 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 a 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.

(Expressed in Renminbi Yuan unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) The 2004 share option plan (continued)

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

	Number of options	**Vesting conditions**	**Contractual life of options**
Options granted to certain executives, external consultants and employees	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:

	2013		2012	
	Weighted average exercise price RMB	**Number of options**	Weighted average exercise price RMB	Number of options
Outstanding at the beginning of the year	**0.10**	**7,151,970**	0.13	9,397,600
Exercised during the year	**0.06**	**(2,040,080)**	0.15	(2,245,630)
Outstanding at the end of the year	**0.08**	**5,111,890**	0.10	7,151,970
Exercisable at the end of the year	**0.08**	**5,111,890**	0.10	7,151,970

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) The 2006 and 2010 share option plans

On 26 August 2006, the Company adopted a share incentive plan (the "2006 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the executives, employees and external consultants of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

On 3 September 2010, the Company adopted a share option plan (the "2010 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the directors, employees or business associates of the Group. 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 and directors 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
7 September 2012	500,000	466	0.93	2.72
22 October 2012	500,000	533	1.07	3.43
2 January 2013	500,000	543	1.09	3.43
28 August 2013	250,000	340	1.36	3.95
9 December 2013	400,000	556	1.39	4.41
	88,002,350	123,738		

The above share options granted to executives and directors are vested in instalments over an explicit vesting period of four to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options 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.

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
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
28 August 2012	10,000,000	8,584	0.86	2.74
10 December 2012	13,300,000	14,811	1.11	3.73
	33,530,940	34,238		

The above share options were granted to 591 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. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options ranges from 6 to 10 years.

	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		

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):

The above share options granted to consultants are vested in instalments over an explicit vesting period of four to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is 10 years. The options granted on 14 June 2007 are exercisable upon an IPO of the Company's shares, which was completed in September 2010.

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.

	Number of options	Fair value	Weighted average fair value per share option	Weighted average exercise price
		RMB'000	RMB	RMB
Options granted under a business combination:				
25 June 2012	4,000,000	2,598	0.65	2.64
Total options granted	127,533,290	161,576		

As described in note 21, the Group granted 4,000,000 shares options to the former shareholder of Dongguan Kewei on 25 June 2012. The options are vested on the fourth anniversary of the date of acquisition. The contractual life of options granted is 4.08 years.

(Expressed in Renminbi Yuan unless otherwise indicated)

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:

	2013		2012	
	Weighted average exercise price RMB	Number of options	Weighted average exercise price RMB	Number of options
Outstanding at the beginning of the year	2.42	75,426,710	1.95	51,480,570
Granted during the year	3.88	1,150,000	3.20	28,300,000
Exercised during the year	1.90	(3,439,470)	1.89	(1,728,630)
Forfeited during the year	3.07	(1,653,290)	1.96	(2,625,230)
Outstanding at the end of the year (note)	2.37	71,483,950	2.42	75,426,710
Exercisable at the end of the year (note)	1.83	34,175,763	1.91	27,967,334

Note: The weighted average exercise prices for options outstanding and exercisable at 31 December 2013 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 February 2014 through December 2023. As at 31 December 2013, the weighted average remaining contractual life for the share options granted under the 2006 and 2010 share option plans was 6.70 years (2012: 7.66 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.

(Expressed in Renminbi Yuan unless otherwise indicated)

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	**2013**	2012
Fair value at measurement dates	**HK\$1.24 to HK\$1.87**	HK\$1.05 to HK\$1.37
Share price	**HK\$4.22 to HK\$5.40**	HK\$3.33 to HK\$4.60
Exercise price	**HK\$4.23 to HK\$5.59**	HK\$3.33 to HK\$4.60
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**42.97% to 45.41%**	43.11% to 45.26%
Option life	**10 years**	10 years
Suboptimal exercise factor	**1.5**	1.5 to 1.8
Expected dividend yield	**1.35%**	1.36%
Average risk-free interest rate	**0.64% to 2.37%**	0.34% to 0.95%
Forfeiture rate	**5.79%**	7.64%

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 materially affect the fair value estimate.

In respect of share options granted during 2012 and 2013, the service condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Share award scheme

	2013		2012	
	Number of shares	**Weighted average fair value per share based on the Company's share prices RMB**	Number of shares	Weighted average fair value per share based on the Company's share prices RMB
1 January	**6,322,699**	**3.30**	23,080	3.10
Granted during the year	**(2,876,631)**	**4.29**	–	–
Repurchased during the year	**3,331,000**	**5.11**	6,299,619	2.88
31 December	**6,777,068**	**3.99**	6,322,699	3.30

In 2011, the Board approved a share award scheme, pursuant to which, the Company may grants shares of the Company to executives at nil consideration. During the year ended 31 December 2012, the Company purchased 6,299,619 of its own shares at cash consideration of RMB18,160,000 for the purpose of this share award scheme. Included in the number of shares repurchases in 2012 was 451,619 shares repurchased at a consideration of RMB1,405,000 from an executive of the Group who was granted for those shares in 2011. No share was granted under this share award scheme in 2012. During the year ended 31 December 2013, the Company granted 2,876,631 shares to the Group's executives in April 2013 and purchased 3,331,000 shares at cash consideration of RMB17,049,000 under this shares award scheme.

The share purchases under this share award scheme are reflected as a decrease in the capital reserve of the Company. When shares are granted to the Group's executives, fair values of the executive services received in exchange for the grant of shares are measured based on the grant date share price of the Company and are recognised as staff costs in the consolidated statement of profit or loss with a corresponding increase in capital reserve.

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

	2013 RMB'000	2012 RMB'000
Research and development costs	**5,417**	8,009
Distribution costs	**3,886**	4,974
Administrative expenses	**1,917**	3,890
	11,220	16,873

Except for the 4,000,000 shares granted in respect of a business combination under the 2010 Option Plan, the other share options granted under the 2004 Modified Plan, the 2006 Option Plan, the 2010 Option Plan and the share award scheme were all granted to executives, employees and external consultants of the Group. Accordingly, the compensation expense was reflected as equity-settled share-based payment expenses with a corresponding increase in the capital reserve of the Company.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital RMB'000 Note 25(c)(i)	Share premium RMB'000 Note 25(d)(i)	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
Balance at 1 January 2012		109	1,540,920	1	(67,538)	48,582	273,396	1,795,470
Changes in equity for 2012:								
Profit for the year		–	–	–	–	–	23,192	23,192
Other comprehensive income		–	–	–	(9,413)	–	–	(9,413)
Total comprehensive income		–	–	–	(9,413)	–	23,192	13,779
Dividends approved in respect of the previous year	*25(b)(ii)*	–	–	–	–	–	(80,969)	(80,969)
Equity-settled share-based transactions	*24(d)*	–	–	–	–	16,873	–	16,873
Shares issued under the share option plans	*25(c)(iii)*	–	6,753	–	–	(3,127)	–	3,626
Purchase of own shares	*25(c)(ii)*							
– par value paid		(1)	–	–	–	–	–	(1)
– premium paid		–	–	–	–	–	(61,393)	(61,393)
– transfer between reserves		–	–	1	–	–	(1)	–
Shares purchased under share award scheme	*24(c)*	–	–	–	–	(18,160)	–	(18,160)
Balance at 31 December 2012		108	1,547,673	2	(76,951)	44,168	154,225	1,669,225

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

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 (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
Balance at 1 January 2013		108	1,547,673	2	(76,951)	44,168	154,225	1,669,225
Changes in equity for 2013:								
Loss for the year		–	–	–	–	–	(104,743)	(104,743)
Other comprehensive income		–	–	–	(14,774)	–	–	(14,774)
Total comprehensive income		–	–	–	(14,774)	–	(104,743)	(119,517)
Dividends approved in respect of the previous year	*25(b)(ii)*	–	–	–	–	–	(89,741)	(89,741)
Equity-settled share-based transactions	*24(d)*	–	–	–	–	11,220	–	11,220
Shares issued under the share option plans	*25(c)(iii)*	–	12,528	–	–	(5,736)	–	6,792
Purchase of own shares	*25(c)(ii)*							
– par value paid		–	–	–	–	–	–	–
– premium paid		–	–	–	–	–	(13,165)	(13,165)
– transfer between reserves		–	–	–	–	–	–	–
Shares purchased under share award scheme	*24(c)*	–	–	–	–	(17,049)	–	(17,049)
Shares granted under share award scheme	*24(c)*	–	–	–	–	12,332	–	12,332
Balance at 31 December 2013		108	1,560,201	2	(91,725)	44,935	(53,424)	1,460,097

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	2013 **RMB'000**	2012 RMB'000
No dividend was proposed during 2013 (2012: HK$8 cents (equivalent to RMB6 cents) per ordinary share)	**–**	89,741

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

	2013 **RMB'000**	2012 RMB'000
Dividends in respect of the previous financial year, approved during the year, of HK$8 cents (equivalent to RMB6 cents) per share (2012: HK$7 cents (equivalent to RMB6 cents) per share)	**89,741**	80,969

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Ordinary shares

	2013		2012	
	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	**1,406,730**	**108**	1,420,483	109
Shares issued under share option plans (note 25(c)(iii))	**5,480**	**–**	3,974	–
Repurchase of shares (note 25(c)(ii))	**(3,215)**	**–**	(17,727)	(1)
At 31 December	**1,408,995**	**108**	1,406,730	108

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.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(ii) 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 considerations paid RMB'000
January 2013 #	2,178,000	3.79	3.57	8,092
June 2013 #	101,000	5.02	4.89	496
July 2013 #	936,000	5.23	4.72	4,577
	3,215,000			13,165
June 2013 (see note 24(c))	2,337,000	5.17	5.07	11,932
July 2013 (see note 24(c))	994,000	5.15	4.97	5,117
	3,331,000			17,049
	6,546,000			30,214

These repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB13,165,000 was charged to retained profits.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iii) Shares issued under the share option plans

Shares issued under the share option plans during the year are summarised as follows:

	No. of share options exercised	Consideration RMB'000	Credited to/(transferred from) Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000
Options exercised in:					
January 2012	375,690	531	–	1,026	(495)
February 2012	431,830	117	–	188	(71)
March 2012	100,000	16	–	26	(10)
May 2012	60,270	108	–	177	(69)
June 2012	67,850	118	–	173	(55)
July 2012	989,490	1,559	–	3,001	(1,442)
August 2012	226,100	45	–	72	(27)
September 2012	806,660	218	–	338	(120)
October 2012	22,650	36	–	71	(35)
November 2012	841,170	782	–	1,546	(764)
December 2012	52,550	96	–	135	(39)
For the year ended 31 December 2012	3,974,260	3,626	–	6,753	(3,127)
January 2013	**1,374,760**	**216**	**–**	**405**	**(189)**
February 2013	**285,090**	**81**	**–**	**134**	**(53)**
March 2013	**1,100,340**	**1,698**	**–**	**3,356**	**(1,658)**
April 2013	**666,980**	**1,306**	**–**	**2,046**	**(740)**
May 2013	**213,920**	**189**	**–**	**278**	**(89)**
June 2013	**5,090**	**10**	**–**	**14**	**(4)**
July 2013	**1,443,850**	**2,724**	**–**	**5,459**	**(2,735)**
August 2013	**201,100**	**406**	**–**	**567**	**(161)**
September 2013	**11,580**	**20**	**–**	**29**	**(9)**
October 2013	**51,290**	**91**	**–**	**152**	**(61)**
November 2013	**20,720**	**38**	**–**	**61**	**(23)**
December 2013	**104,830**	**13**	**–**	**27**	**(14)**
For the year ended 31 December 2013	**5,479,550**	**6,792**	**–**	**12,528**	**(5,736)**

(Expressed in Renminbi Yuan unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

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

Exercise period	Exercise price RMB	2013 Number of options	2012 Number of options
24 September 2011 to 19 February 2014	0.06 to 0.19	**5,111,890**	7,151,970
26 April 2007 to 24 January 2017	0.98 to 2.13	**2,605,610**	2,605,610
23 September 2008 to 22 September 2017	2.34	**500,000**	500,000
25 July 2009 to 24 July 2018	2.09	**1,500,000**	1,900,000
23 June 2009 to 31 December 2018	2.10	**1,700,000**	1,700,000
9 October 2010 to 20 October 2019	2.09	**5,988,000**	6,000,000
9 July 2011 to 8 July 2020	2.08	**21,475,730**	23,648,730
9 August 2011 to 8 August 2020	2.07	**4,040,000**	4,790,000
23 April 2007 to 1 March 2013	2.13	**1,698,110**	2,206,370
6 February 2010 to 5 February 2015	2.91	**150,000**	250,000
8 July 2011 to 7 July 2020	2.08	**926,500**	976,000
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**	500,000
1 November 2012 to 31 October 2021	3.64	**750,000**	750,000
28 August 2019 to 27 August 2022	2.74	**10,000,000**	10,000,000
6 September 2013 to 6 September 2022	2.72	**500,000**	500,000
25 June 2016 to 26 July 2016	2.64	**4,000,000**	4,000,000
22 October 2013 to 21 October 2022	3.43	**500,000**	500,000
10 December 2019 to 9 October 2022	3.73	**12,000,000**	13,100,000
2 January 2014 to 1 January 2023	3.43	**500,000**	–
28 August 2014 to 27 August 2023	3.95	**250,000**	–
9 December 2014 to 8 December 2023	4.41	**400,000**	–
		76,595,840	82,578,680

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.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(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).

(iii) Capital reserve

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

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

(iv) Statutory general reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained profits to statutory general reserve at the rate of 10% of its net profit each year, 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 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was RMB1,506,777,000 (2012: RMB1,701,898,000).

(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.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management (continued)

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 2013 was RMB2,508,975,000 (2012: RMB2,231,827,000).

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.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's financial ratios relating to capital requirements. The Group complied with the imposed loan covenants for the year ended 31 December 2013. Except for the above, neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. 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 mainly 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, 21% (2012: 26%) and 47% (2012: 54%) 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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(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 end of the reporting period 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 end of the reporting period) and the earliest date the Group can be required to pay:

(i) The Group

	2013 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**
Interest-bearing borrowings	**193,289**	**15,420**	**123,952**	**–**	**332,661**	**312,576**
Trade and other payables	**270,097**	**–**	**–**	**–**	**270,097**	**270,097**
Other non-current liabilities	**–**	**–**	**48,916**	**–**	**48,916**	**42,729**
	463,386	**15,420**	**172,868**	**–**	**651,674**	**625,402**

	2012 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
Interest-bearing borrowings	21,045	650	1,861	600	24,156	23,194
Trade and other payables	174,812	–	–	–	174,812	174,812
Other non-current liabilities	–	–	48,916	–	48,916	40,679
	195,857	650	50,777	600	247,884	238,685

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

(ii) The Company

	2013 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
Interest-bearing borrowings	2,238	2,238	89,251	–	93,727	90,876
Trade and other payables	104,396	5,600	283,267	–	393,263	378,796
Other non-current liabilities	–	–	48,916	–	48,916	42,729
	106,634	7,838	421,434	–	535,906	512,401

	2012 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	27,678	–	–	–	27,678	27,678
Other non-current liabilities	–	–	48,916	–	48,916	40,679
	27,678	–	48,916	–	76,594	68,357

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks and interest-bearing borrowings. Borrowings at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings 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.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and deposits at the end of the reporting period:

	2013		2012	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Net fixed rate instruments:				
Deposits with banks	**1.59%~3.25%**	**405,229**	3.31%	675,995
Interest-bearing borrowings	**6.00%**	**(69,000)**	6.66%	(20,000)
		336,229		655,995
Net variable rate instruments:				
Cash at banks	**0.35%**	**900,466**	0.35%	399,149
Deposits with banks	**0.35%**	**4,281**	0.35%	4,280
Interest-bearing borrowings	**2.49%~6.69%**	**(243,576)**	6.62%	(3,193)
		661,171		400,236
Total net instruments		**997,400**		1,056,231
Net fixed rate instruments as a percentage of total net instruments		**33.7%**		62.1%

(ii) Sensitivity analysis

At 31 December 2013, 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 RMB4,470,000 (2012: RMB1,919,000).

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 remeasure 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 2012.

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)			
	2013		2012	
	US$	**RMB**	US$	RMB
	RMB'000	**RMB'000**	RMB'000	RMB'000
Trade and other receivables	**26,772**	**–**	10,560	11,888
Cash and cash equivalents	**23,959**	**2,817**	6,677	218,707
Deposits with banks	**121,938**	**–**	153,995	330,000
Trade and other payables	**(5,575)**	**–**	(4,285)	(1,200)
Amounts due to group companies	**–**	**(267,224)**	–	(18,046)
Amounts due from related parties	**7,509**	**–**	5,962	–
Other non-current liabilities	**–**	**(42,729)**	–	(40,679)
Net exposure arising from recognised assets and liabilities	**174,603**	**(307,136)**	172,909	500,670

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies	
	2013	2012
	RMB'000	RMB'000
Trade and other receivables	**–**	11,888
Cash and cash equivalents	**2,719**	218,674
Deposits with banks	**–**	330,000
Trade and other payables	**–**	(1,200)
Amounts due (to)/from group companies	**(267,224)**	50,059
Other non-current liabilities	**(42,729)**	(40,679)
Net exposure arising from recognised assets and liabilities	**(307,234)**	568,742

(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.

	2013		2012	
	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%**	**4,452**	3%	5,120
	(3)%	**(4,452)**	(3)%	(5,120)
RMB (against US$)	**3%**	**(9,214)**	3%	15,020
	(3)%	**9,214**	(3)%	(15,020)

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.

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 2012.

(e) Fair value measurement

The three levels of the fair value hierarchy as defined in HKFRS 13, *Fair value measurement* are defined as follows:

- Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: Fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

- Level 3 valuations: Fair values measured using significant unobservable inputs.

All financial instruments which carried at cost or amortised cost are at amounts not materially different from their fair values at 31 December 2013 and 2012.

27 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Contracted for	**131,132**	162,467
Authorised but not contracted for	**334,035**	314,591
	465,167	477,058

In addition to the above, the Group will also acquire certain assets of the OrthoRecon Business from Wright Medical Group, Inc., details of which have been disclosed in note 28.

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**4,432**	5,572
After 1 year but within 5 years	**4,353**	7,529
	8,785	13,101

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 2013 and 2012.

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 19 June 2013, MicroPort Medical B.V. (the "Purchaser"), a wholly-owned subsidiary of the Company, and Wright Medical Group, Inc., a corporation incorporated in Delaware of the U.S. (the "Seller") entered into an asset purchase agreement (the "Asset Purchase Agreement"), pursuant to which the Purchaser has agreed to acquire from the Seller the assets of the OrthoRecon business (the "Business"), which consist of the Seller's worldwide hip and knee orthopedic reconstruction business, and to assume the liabilities of the Business (the "Acquisition") for the consideration of US$290 million. The consideration is subject to adjustment upwards or downwards by reference to the amount of working capital in the Business on the date of Closing (other than cash).

The Company intends to finance the Acquisition from the following sources: (a) up to US$90 million from existing cash resources of the Group; and (b) loans of US$200 million ("Term Loans") from facilities to be provided by Otsuka Medical Devices Co., Ltd, a company incorporated in Japan and a substantial shareholder of the Company ("Otsuka").

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

The Acquisition and Term Loans were approved in an extraordinary general meeting held on 3 January 2014 and the completion of the Acquisition took place on 10 January 2014. The Term Loans have been drawdown on the same day to pay-off a portion of the consideration of the Acquisition.

The Acquisition is to be accounted for as a business combination in accordance with HKFRS3, Business Combinations. Up to the approval date of these financial statements, the directors are still in the process of determining the fair values of the net identifiable assets of the Acquisition.

No adjustments have been made to these financial statements as a result of the above event.

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:

	2013 **RMB'000**	2012 RMB'000
Salaries and other benefits	**8,878**	9,219
Discretionary bonuses	**6,777**	–
Retirement scheme contributions	**181**	169
Equity-settled share-based payment expenses	**5,061**	10,769
	20,897	20,157

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

(b) Sales to related parties

For the year ended 31 December 2013 and 2012, the Group has entered into sales transactions with the following related parties:

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

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:

	2013 RMB'000	2012 RMB'000
Sales to:		
JIMRO	**1,546**	2,363
Thai Otsuka	**4,955**	6,261
Otsuka Philippines	**6,103**	6,492
Otsuka Indonesia	**4,402**	5,030
Otsuka Pakistan	**3,917**	3,182
	20,923	23,328

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

	The Group	
	2013 RMB'000	2012 RMB'000
Trade receivables from:		
JIMRO	**690**	750
Thai Otsuka	**2,093**	1,275
Otsuka Philippines	**1,038**	964
Otsuka Indonesia	**2,591**	1,870
Otsuka Pakistan	**1,097**	1,103
	7,509	5,962

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

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors.

(Expressed in Renminbi Yuan unless otherwise indicated)

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2013, the directors consider the immediate parent and ultimate controlling party of the Group to be Otsuka Medical Devices Co., Ltd. and Otsuka Holdings Co., Ltd., which are both incorporated in Japan. Otsuka Holdings Co., Ltd. produces financial statements available for public use and Otsuka Medical Devices Co., Ltd. does not.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2013 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 HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*	1 January 2014
Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*	1 January 2014
Annual improvements to HKFRS 2010-2012 cycle	1 July 2014
Annual improvements to HKFRS 2011-2013 cycle	1 July 2014

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 consolidated financial statements.

MicroPort

MicroPort Scientific Corporation