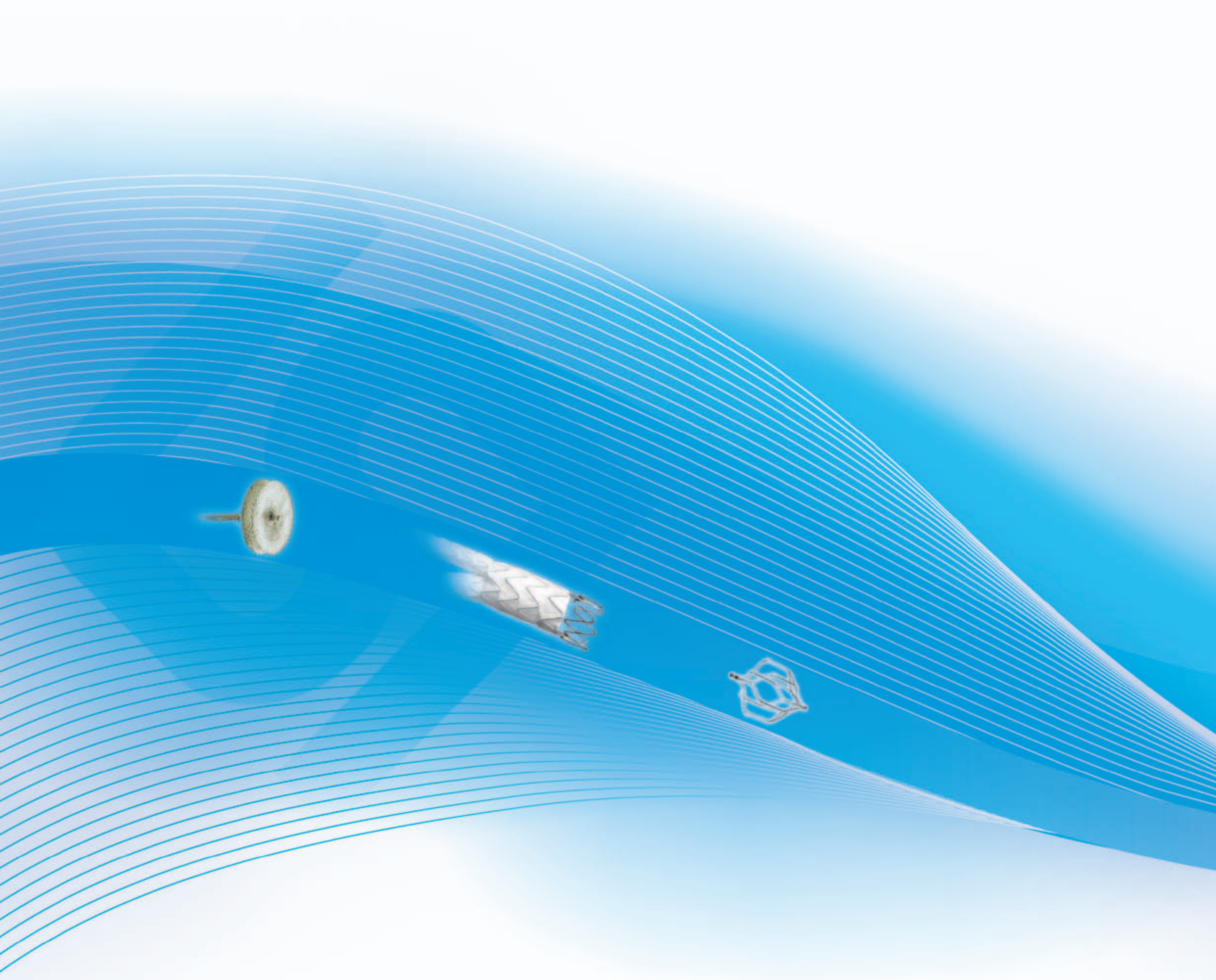
LifeTech Scientific Corporation

先 健 科 技 公 司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01302



2013 ANNUAL REPORT

Content

Corporate Information

EXECUTIVE DIRECTORS

XIE Yuehui *(Chairman)*
ZHAO Yiwei Michael *(Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS

WU Jianhui
MARTHA Geoffrey Straub
LIDDICOAT John Randall
JIANG Feng

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIANG Hsien Tse Joseph
ZHOU Gengshen
ZHOU Luming

COMPANY SECRETARY

LIU Jianxiong

AUTHORIZED REPRESENTATIVES

ZHAO Yiwei Michael
LIU Jianxiong

AUDIT COMMITTEE

LIANG Hsien Tse Joseph *(Chairman)*
WU Jianhui
ZHOU Gengshen

NOMINATION COMMITTEE

ZHOU Luming *(Chairman)*
XIE Yuehui
LIANG Hsien Tse Joseph

REMUNERATION COMMITTEE

ZHOU Gengshen *(Chairman)*
MARTHA Geoffrey Straub
LIANG Hsien Tse Joseph

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.lifetechmed.com

STOCK CODE

1302

LISTING DATE ON THE GROWTH ENTERPRISE MARKET

10 November 2011

DATE OF TRANSFER OF LISTING FROM GROWTH ENTERPRISE MARKET TO THE MAIN BOARD

6 November 2013

PRINCIPAL BANKERS

China Merchants Bank, Shenzhen Chegongmiao Branch
Block A, 1/F Tianxiang Building
Tianan Chegongmiao Industrial District
Futian, Shenzhen, PRC

China Construction Bank, Shenzhen Nanxin Branch
1/F China Construtruction Bank Building
No. 1 Guankou Road, Nanshan District
Shenzhen, PRC

HONG KONG LEGAL ADVISOR

O'Melveny & Myers
31/F, AIA Central
1 Connaught Road Central
Hong Kong

COMPLIANCE ADVISOR

First Shanghai Capital Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE IN CAYMAN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS AND ADDRESS OF HEADQUARTERS

Cybio Electronic Building,
Langshan 2nd Street,
North Area of High-tech Park,
Nanshan District,
Shenzhen 518057, PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE HONG KONG COMPANIES ORDINANCE

31/F, 148 Electric Road
North Point,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102,
Cayman Islands

Chairman's Statement

Dear shareholders,

For and on behalf of the board of directors (the "Board") of LifeTech Scientific Corporation (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

FINANCIAL REVIEW

I would like to report that the Group has achieved a significant growth in sales in the last year. Revenue of the Group was approximately RMB231.0 million for the year ended 31 December 2013 in comparison with approximately RMB181.5 million in year 2012, representing a growth of approximately 27.3%. Gross profit was approximately RMB188.6 million for 2013 in comparison with approximately RMB145.3 million in 2012, representing a growth of approximately 29.8%. Gross profit margin was approximately 81.6% for 2013 compared to approximately 80.1% of year 2012. The increase in revenue was mainly attributable to the rapid growth of sales volume of our primary products along with the expansion of our sales network. The operating profit of the Company was approximately RMB42.2 million for 2013 representing a decrease of approximately 15.3% as compared with 2012 which is mainly due to the service fee paid and accrued to Medtronic, Inc ("Medtronic", a substantial shareholder of the Company) amounting to approximately RMB20.5 million. Net loss attributable to owners of the Company for the year ended 31 December 2013 was approximately RMB65.7 million compared to profit amounting to approximately RMB32.4 million in year 2012. The decrease of net profit was mainly attributable to (i) the record of the fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013; (ii) the record of the fair value loss related to the secured convertible notes of Broncus Medical Inc. purchased by the Company in September 2013; (iii) the increase in administration expenses. The Board is of the opinion that the fair value charges of convertible notes are non-operating and non-cash flow items. The Board is of the view that the Group's operating financial positions are healthy and the Board remains positive with regards to the prospects of the Group.

OPERATION REVIEW

During the year ended 31 December 2013, the Group continued to strengthen its existing businesses of its major products including occluders products, vena cava filter and stent graft and actively expanded its distribution network, in both the PRC and oversea markets. Both domestic and overseas sales have increased rapidly due to our continuous marketing efforts and our enhanced brand name. The market leading position has been further strengthened through these efforts.

As at 31 December 2013, we have a well-established distribution network for our products consisting of more than 200 distributors in 46 countries in aggregate. We expanded into new international markets including Greece, Colombia, Thailand, Macedonia and Poland during the year 2013. In 2013, our global sales network witnessed the broadened international image of our product. And as we engaged a European customer service center, it will provide local and premium customer service including quicker product availability within the European Union. This improved service is expected to further expand our European business as a whole. A total of 28 of our products have been granted the CE certification as at 31 December 2013 and 3 products granted the FDA approval. I believe there would be significant opportunities for us to break into the international market during the next few years.

Since October 2012, LifeTech and Medtronic signed a series of strategic alliance agreement. In 2013, Medtronic and LifeTech are clearly making progress to become leaders in both the multinational and domestic cardiovascular medical device segment. We truly believe that our strategic alliance will enable both companies to serve more clinicians and patients in China and around the world. In particular, we have a good cooperation on the heart valve project to accelerate the marketing of the product.

PROSPECTS

We believe that our success relies on and will continue to rely on our ability to develop new proprietary products. We will continue to allocate resources in research developing new cardiovascular, peripheral vascular and other implants products, including Ankura II stent grafts and LAA occluders.

Looking ahead, the partnership built between the Company and Medtronic will drive us to integrate the advanced expertise to support our continued growth, development pipeline and manufacturing capabilities to better serve patients and clinicians in China and globally.

Medtronic has helped in our engineering and quality efforts in production of heart valve in 2013 and we prepare to re-launch the heart valve product in 2014. As published in the announcement dated 27 January 2014, we are eager to expand upon our strategic alliance with the signing of the second supplemental services agreement which expands both the scope and nature of the consulting services, know-how and expertise that Medtronic will provide LifeTech through our strategic alliance. We expect our future together to be bright so long as each company works to achieve our mutual goals.

In the overseas market, we participated in the global competition with competitive products and more investments as we expect that it will have a more prosperous future. In 2014, we are actively looking to explore our sales network for our peripheral products in addition to growing our existing congenital heart diseases business in international market.

Leveraged on our broad portfolio of products, robust product development pipeline and strong research and development capabilities, we are capable of expanding our business and gain revenue in European and international markets. Management is confident that it will provide positive contribution to the Company.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and business partners for their continued support to the Group. I would also like to take this opportunity to express my appreciation to the management team and staffs for their contribution to the Group during the past year.

XIE Yuehui
Chairman

Hong Kong, 25 March 2014

Management Discussion and Analysis

BUSINESS OVERVIEW

The Group is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. We have three main product lines, including congenital and structural heart diseases business ("congenital heart diseases business"), peripheral vascular diseases business and surgical vascular repair business, providing clinically effective and commercially attractive product offerings.

Today, our products are being used in 46 countries across Asia, Africa, North America, South America and Europe, mainly through our network of distributors consisting of more than 200 distributors worldwide.

China is still our largest market, and sales generated from Chinese market accounted for approximately 70.7% of our total revenue (2012: approximately 71.8%). Our domestic sales realised approximately a 25.5% growth during the year, indicating stronger brand and higher market share in China. Our international market realised approximately a 32.0% growth in sales revenue. In 2013, we strengthened our sales force and explored new distributors which led to an increase in our market share.

Research and development

In 2013, we have made the following achievements in R&D field:

- Our research and development laboratory was officially granted "National & Local United Engineering Laboratory of Interventional Biotechnology and System", and approved by the National Development and Reform Commission of China Government for construction;
- Our research and development laboratory was approved to work as "Guangdong Cardiovascular Disease Interventional Therapy Device (Lifetech) Engineering Technology Research Center";
- Bronchial valve finished the pre-research phase with positive outcome, and it's name has been changed as lung volume reduction device, and set the intended use to reduce lung volume;
- We started clinical trial in China for product peripheral stents;
- The first Lifetech LAmbre LAA device live case in Europe was successfully done during LAA global conference 2013 in Frankfurt;
- Clinical trial was finished for product Fustar in China.

Marketing activity

- We expanded our activities in tradeshow marketing, sales network coverage, adopted new focus and commercial trade policies, broadened our reach to global Key Opinion Leaders, and developed more evidenced based medicine studies;
- We organized successful exchange activity through the platform Lifetech Knowledge Exchange Program, to attract global clinicians to exchange advanced technique during operation at the scene, which leads to the improvement of clinical technology;
- Lifetech and Medtronic also co-organised initiative China Innovations in Cardiology ("CIC"). CIC was China's first attempt to build a mechanism with the purpose to streamline the process of understanding China's patient and clinical needs, translate those needs to product designs and ultimately create solutions to these needs. It built a bridge to link the medical experts with the industry and investments with the purpose to incubate and commercialize novel medical concepts;
- In India, we had active participation with different national agencies like Cardiac Society of India, for their annual conference, and the Pediatric cardiac society of India and arranged several workshops and CME programmes to create awareness about the transcatheter treatment methodologies and its development in different parts of the country;
- We have also conducted one very successful interventional workshop in Bangladesh, India for the patients from the economically weaker sections of the society with the help of the charity foundation based at Sharjah, UAE. We have treated a total of 34 patients in this camp, and we had several more of these activities in the year 2013.

FINANCIAL REVIEW

Overview

The company has kept high growth rate for the year ended 31 December 2013. With the potent joining of Medtronic, we are confident that our business will expand to more countries and have a bright future.

Revenue

Our revenue amounting to approximately RMB231.0 million for the year ended 31 December 2013, with an increase of approximately RMB49.5 million or approximately 27.3% compared to the year ended 31 December 2012. The growth in sales was mainly attributed to the rapid increase of stent graft by approximately RMB18.6 million or approximately 55.1% and vena cava filter by approximately RMB14.0 million or approximately 34.2%.

Revenue from congenital heart diseases business

The turnover contributed by the congenital heart diseases business for the year ended 31 December 2013 was approximately RMB120.6 million (2012: approximately RMB103.8 million), realised a growth of 16.2%.

With the diversification of product portfolio, our products cover a wide spectrum of congenital heart defect occluders. The three series are HeartR, Cera and CeraFlex. During the period from the year ended 31 December 2012 to the year ended 31 December 2013, revenue generated from the sales of HeartR devices increased by approximately 24.5% from approximately RMB52.6 million to approximately RMB65.5 million. Cera devices decreased from approximately RMB29.0 million to approximately RMB27.8 million, the main reason being that the third generation CeraFlex has been launched to the market and replaced partial market share. Revenue generated from the sales of CeraFlex devices in the year 2013 was approximately RMB8.0 million. The ASD occluder, VSD occluder and PDA occluder experienced growth of approximately 29.3%, 26.5% and 10.1% respectively, as compared to the sales revenue of year ended 31 December 2012. We believe that existing products namely balloon catheter, introducer, snare, associated delivery and supporting devices, as well as the launch of CeraFlex, will also win competitive market share in the future.

Revenue from peripheral vascular diseases business

The turnover contributed by the peripheral vascular diseases business for the year ended 31 December 2013 was approximately RMB110.2 million (2012: approximately RMB77.2 million), representing approximately a growth of approximately 42.7%.

The products we offered in the peripheral vascular diseases business include vena cava filter, TAA and AAA stent graft, vascular plug and steerable introducer. The vena cava filter realised approximately 34.2% growth of sales revenue as compared to that of year 2012. Our stent graft realized approximately a growth of approximately 55.1% during the year ended 31 December 2013.

Revenue from surgical vascular repair business

The products we offered in the surgical vascular repair business include heart valve. Revenue generated from the sales of surgical vascular repair business decreased by approximately 60.0% from approximately RMB0.5 million for the year ended 31 December 2012 to approximately RMB0.2 million for the year ended 31 December 2013. The decrease was mainly because Medtronic has been helping with the building of research and technical system in Beijing to improve the quality of product heart valve in 2013, and pause the sales of it in this period.

Gross profit and gross profit margin

As a result of the increased sales and diversity of our products, gross profit of the Group increased by approximately 29.8% from approximately RMB145.3 million for the year ended 31 December 2012 to approximately RMB188.6 million for the year ended 31 December 2013. Gross profit margin increased by 1.9% from approximately 80.1% for the year ended 31 December 2012 to approximately 81.6% for the year ended 31 December 2013.

Selling and distribution expenses

Selling and distribution expenses increased by 26.5% from approximately RMB41.2 million for the year ended 31 December 2012 to approximately RMB52.1 million for the year ended 31 December 2013. The increase was primarily due to (i) an increase of salary, bonus and related expenses for additional personnel engaged in sales and marketing; and (ii) an increase of marketing expenses as a result of increased attendance at conference and tradeshows for our products promotion.

Administrative expenses

Administrative expenses increased by 66.8% from approximately RMB37.9 million for the year ended 31 December 2012 to approximately RMB63.2 million for the year ended 31 December 2013. The increase was primarily attributable to the service fee of approximately RMB20.5 million to Medtronic subject to the service agreement between the two companies in 2012.

Research and development expenses

Research and development expenses increased by 31.4% from approximately RMB23.6 million for the year ended 31 December 2012 to approximately RMB31.0 million for the year ended 31 December 2013. The increase was primarily due to (i) more expenditure in developing projects; and (ii) an increase of salary, bonus and related expenses for additional staffs in research and development department.

Operating profit

Operating profit decreased by approximately 15.3% from approximately RMB49.8 million for the year ended 31 December 2012 to approximately RMB42.2 million for the year ended 31 December 2013. The decrease was primarily due to service fee amounting to approximately RMB20.5 million to Medtronic subject to the service agreement between the two companies in 2012.

Share of loss of associates

The Company had 40% of equity interest of Broncus Holding Corporation and its subsidiary Broncus Medical Inc. (collectively referred to as "Broncus"). The Group's share of loss of the Broncus for the year 2013 was approximately RMB11.1 million.

The Company disposed of 51% equity share in Shenzhen Enke Medical Technology Co., Ltd. ("Enke Medical"), a wholly-owned subsidiary. The remaining 49% equity interest in Enke Medical had been accounted for as interest in an associate. The Group's share of gain of Enke Medical was approximately RMB0.1 million.

Fair value losses on other financial asset and convertible notes

During the year ended 31 December 2013, the losses in fair value on other financial asset and convertible notes was approximately RMB83.8 million, including fair value losses on convertible note the Company issued to Medtronic of approximately RMB66.8 million and Broncus issued to the Company of approximately RMB17.0 million.

Finance income and finance costs

The Company realised approximately RMB4.0 million of interest income in 2013 compared to approximately RMB2.4 million in 2012.

Finance costs are approximately RMB10.1 million including approximately RMB9.0 million and approximately RMB1.1 million representing effective interest expenses arising from the convertible note issued to Medtronic and bank borrowings, respectively.

Net loss

Net loss attributable to owners of the Company for the year ended 31 December 2013 was approximately RMB65.7 million (2012: profit amounting to approximately RMB32.4 million). The decrease of net profit was mainly attributable to (i) the record of the fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013 (ii) the record of the fair value loss related to the secured convertible notes of Broncus Medical Inc. purchased by the Company in September 2013; (iii) the increase in administration expenses.

FUTURE PROSPECTS

The Group will continue to rely on its two core businesses, namely congenital heart diseases business and peripheral vascular diseases business, for growth potential in the year 2014. The Group will also actively expand its product offering and strengthen its established market position. We launched Cera occluders to the China market in 2013. The selling of Cera occluders in China will be a new drive to expand our domestic market and strengthen our role to better serve patients in China. In addition, as the competitive product in international market, we believe CeraFlex occluders will continually stimulate the selling growth overseas.

We will continue to focus on broadening our product portfolio as well as designing innovative products to help capitalize on our growing sales network and infrastructure. Our LAA occluder is under clinical trials in Europe, China and other Asian countries.

In order to support our product launch plan, we will increase investments on physician training programs, and continue to expand our international sales force in Europe, India, Russia and Brazil.

We are actively looking to explore our sales network for our peripheral products in addition to growing our existing congenital heart diseases business in international market.

We expect that our product heart valve will re-launch in the year 2014 after reforming and qualifying with Medtronic's help and we believe the product will be more and more important in our product portfolio going forward.

The future activities will be funded partly by operational income of the Group, and partly by the proceeds from convertible notes issued to Medtronic.

We will continue to evaluate and explore acquisitions, partnerships, alliances and licensing opportunities in 2014, to enhance our competitiveness and market position in current key markets as well as selective new markets.

Strategic cooperation with Medtronic

As published in the Company's announcement dated 27 January 2014, we are eager to expand upon our strategic alliance with the signing of the second supplemental services agreement which expands both the scope and nature of the consulting services, know-how and expertise that Medtronic will provide Lifetech through our strategic alliance. Medtronic has helped in our engineering and quality efforts in production of heart valve in 2013 and we prepare to re-launch the heart valve product in 2014. After reforming and qualifying with Medtronic's help, we believe the product will be more and more important in our product portfolio going forward.

Since this strategic cooperation made between Lifetech and Medtronic, the two companies attended many international medical device exhibitions together, such as European PCR and CSI. It helps to promote Lifetech's brand position. The two companies even used the same booth to present Lifetech and Medtronic products together in Vietnam Congress of Congenital and Structural Heart Disease Fistulas from A to Z. It shows a close cooperation between the two companies.

Lifetech and Medtronic also co-orgnised initiative CIC. As mentioned above, CIC is China's first attempt to build a mechanism with the purpose to streamline the process of understanding China's patient and clinical needs, translating those needs to product designs and ultimately creating solutions to these needs. It built a bridge to link the medical experts with the industry and investments with the purpose to incubate and commercialize novel medical concepts.

In collaborating with leading clinicians, researchers and scientists, Medtronic offers the broadest range of innovative medical technology for the interventional and surgical treatment of cardiovascular disease and cardiac arrhythmias. The Company is continuing its commitment to offering products and services that deliver clinical and economic value to healthcare consumers and providers worldwide.

TRANSFER OF LISTING FROM GROWTH ENTERPRISE MARKET TO THE MAIN BOARD

On 31 May 2013, an application was made by the Company to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the transfer of listing of all the Shares in issue from GEM to the Main Board of the Stock Exchange. The Company has applied for the listing of, and permission to deal in all the 500,000,000 Shares on the Main Board by way of transfer of listing from GEM to the Main Board. The approval-in-principle has been granted by the Stock Exchange on 28 October 2013 for the Shares to be listed on the Main Board and de-listed from GEM, according to Rule 9A.09(6) of the Main Board Listing Rules. Dealings in the Shares on the Main Board (Stock Code: 1302) was commenced at 9:00 am on 6 November 2013. For more details, please refer to the announcement dated 29 October 2013.

USE OF PROCEEDS GENERATED FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing in November 2011 (the "Listing"), after deduction of related expenses, amounting to approximately HK$156.6 million. As at 31 December 2013, the net proceeds from issuance of new shares of the Company had been applied as follows:

		Planned use of proceeds as stated in the prospectus from Listing to 31 December 2013 (HK$ million)	Actual use of proceeds from Listing to 31 December 2013 (HK$ million)
1	Enhance market position of core cardiovascular and peripheral vascular devices in key emerging markets	8.0	7.6
2	Continue to develop and commercialize pipeline products	46.0	46.0
3	Expansion into key international markets with current and pipeline products	8.0	7.6
4	Expansion of our manufacturing facilities	88.0	59.4 *(Note 1)*
5	Expansion into complementary product offers and pursue opportunistic acquisitions, partnerships, alliances and licensing opportunities	10.0 *(Note 2)*	9.5

Note 1 On 19 February 2013, Lifetech Shenzhen made a successful bid for the land use right in respect of the land located in Nanshan District, Shenzhen, the PRC at a price of RMB37,020,000 (equivalent to approximately HK$45,697,000) through an open tender organized by the Shenzhen Land Transaction Centre. The deed tax arising from the land acquisition amounts to approximately RMB1.1 million (equivalent to approximately HK$1.4 million). Other expense arisen is approximately HK$12.3 million.

Note 2 This represents the amount allocatable to any of the period from November 2011 to 31 December 2013.

The net proceeds applied, as at 31 December 2013 are less than expected primarily due to delayed acquisition of land use right in Nanshan District.

The unused proceeds have been placed in interest bearing deposit accounts maintained with banks in Hong Kong and mainland China.

LIQUIDITY AND FINANCIAL RESOURCES

In 2013, the Group mainly financed its operations with its own working capital, proceeds on issue of convertible notes and equity funding.

The Group recorded total current assets of approximately RMB364.9 million as at 31 December 2013 (2012: approximately RMB280.1 million) and total current liabilities of approximately RMB77.5 million as at 31 December 2013 (2012: approximately RMB44.5 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 4.71 as at 31 December 2013 (2012: approximately 6.29).

GEARING RATIO

As at 31 December 2013, the gearing ratio (calculated as a ratio of borrowing consisting of convertible notes to total equity) of the Group is approximately 28.4%. (2012: Nil).

CAPITAL STRUCTURE

Total equity attributable to equity holders of the Company amounting to approximately RMB231.5 million as at 31 December 2013 compared to approximately RMB296.6 million as at 31 December 2012. There were short-term bank borrowings amounting to RMB35 million in 2013 (2012: nil), and interest amounting to approximately RMB1.1 million was expensed in 2013 (2012: nil).

LAND ACQUISITION

On 19 February 2013, Lifetech Shenzhen made a successful bid for the land use right in respect of the land located at lot T205-0008, Gaoxin South 1st Road, Nanshan Gaoxin District, Shenzhen, the PRC (the "Land") at a price of RMB37,020,000 (equivalent to approximately HK$45,697,000) through an open tender organized by the Shenzhen Land Transaction Centre. For further details, please refer to announcement of the Company dated 5 July 2013. The deed tax arising from the land acquisition amounts to approximately RMB1.1 million (equivalent to approximately HK$1.4 million).

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

On 27 September 2013, the Group entered into a sales and purchase agreement with an independent third party (the "Purchaser"), to dispose of 51% equity interest in EnKe Medical, a wholly owned subsidiary of the Company, for a cash consideration of RMB1,050,000 (the "Disposal"). Upon the completion of the Disposal on 27 September 2013, EnKe Medical ceased to be the subsidiary of the Group. However, the Group is able to exercise significant influence over EnKe Medical because it is the main supplier of EnKe Medical. Further details are set out in Note 33 to the consolidated financial statements.

UPDATE ON PENDING LITIGATION IN INDIA AND IMPACT ON OUR CONTINGENT LIABILITIES

The Group is currently involved in litigation in India. AGA Medical Corporation ("AGA") filed a suit with the High Court of New Delhi (the "Court") against our companies, alleging that our occluders sold in India infringed its patent. For details, please refer to the section headed "Risk Factors-Risk Related to Intellectual Property Rights" in the IPO prospectus of the Company (the "Prospectus"). As at the date of this annual report, cross-examination of all of AGA's witnesses is complete and the cross-examination of the first witness of Lifetech is complete. The cross-examination of Lifetech Shenzhen's second witness has commenced and is yet to conclude. After seeking legal advice, the Board is of the opinion that it is very unlikely that the Court will grant a permanent injunction to the plaintiff and it is also very unlikely for the Court to award damages to the plaintiff or direct delivery of infringing devices. Accordingly, the Board considers that no provision is necessary for any potential liability in the consolidated financial statements.

Save as disclosed in this report, the Group did not have any other contingent liabilities as of 31 December 2013.

FINANCIAL INSTRUMENT

On 30 September 2013, the Company entered into the secured convertible note purchase agreement (the "Purchase Agreement") with a related party, Broncus Medical Inc. ("Broncus Medical") for the purchase convertible notes in the principal amount of US$2,800,000. As considering the future operating prospect and financial forecast in addition to the opinions of asset valuer, for prudential assessment, we impaired the value of the convertible notes to nil as at 31 December 2013.

On 30 January 2013, the Company issued HK$152,000,000 unsecured 1% convertible notes due 2018 ("Convertible Notes") to Medtronic. The Convertible Notes bear interest at 1% per annum and mature on 29 January 2018 ("Maturity Date"). The holder of the Convertible Notes has the right to convert the principal amount of Convertible Notes into shares of the Company at an initial conversion price of HK$3.8 per share. The Company may not redeem the Convertible Notes at its option prior to the Maturity Date. The noteholder will have the right at noteholder's option, to require the Company to redeem all, or only some, of the Convertible Notes prior to the Maturity Date at a price equal to their principal amount and interest accrued to the date fixed for redemption subject to the occurrence of specific events as defined in the terms and conditions of the Convertible Notes Agreement.

CAPITAL EXPENDITURE

For the year ended 31 December 2013, capital expenditure of the Group for property, plant and equipment ("PPE"), land use right, intangible assets and deposits for PPE amounting to approximately RMB68.1 million (2012: approximately RMB22.4 million).

FOREIGN EXCHANGE RISK

During the year, the Group's operations are primarily based in the PRC and India. The revenue derived from India accounted for approximately 8.1% (2012: approximately 10.0%) of the total revenue of the Group. The financial statements of Lifetech Scientific India Private Limited, our sole subsidiary in India are presented in Renminbi, and in the Group a portion of the revenue and expenses are denominated in United States Dollars and Euro. Indian Rupees was unstable during the year, and the Group's operational results and financial condition may be affected by changes in the exchange rates of Renminbi against India Rupees. To minimize exposure to foreign exchange risk, most of the bank deposits of the Group are being kept in Renminbi and Hong Kong Dollars. The Directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the year. Further discussion on our financial risk management objectives and policies is included in the "Financial risk management objectives and policies" section of Note 6b to the consolidated financial statements in this report.

CHARGES ON GROUP ASSETS

As at 31 December 2013, the Group did not have any charges on its assets.

LOAN TRANSACTION

On 28 April 2013, Lifetech Shenzhen and Shanghai Pudong Development Bank Shenzhen Branch (the "Lending Agent") entered into the entrusted loan agency agreement, pursuant to which the Lending Agent agreed to act as the lending agent under the entrusted loan agreement (the "Loan Agreement") in return for an agency fee of 0.03% of the loan amount of RMB32.0 million (the "Loan"), subject to and upon the terms and conditions in the announcement of the Company dated 12 July 2013. On the same date, Lifetech Shenzhen entered into the Loan Agreement with an independent third party (the "Borrower") and the Lending Agent, pursuant to which Lifetech Shenzhen agreed to entrust the Loan amount of RMB32.0 million (equivalent to approximately HK$40.0 million) to the Lending Agent, with interest rate of 7% per annum on the Loan amount, for on-lending to the Borrower for a term of one year subject to the terms and conditions under the Loan Agreement. For further details, please refer to the announcement of the Company dated 12 July 2013.

CAPITAL COMMITMENT

As at 31 December 2013, the Group had capital expenditure contracted for but not provided in the Consolidated Financial Statements which amounting to approximately RMB14.2 million (2012: approximately RMB1.3 million).

SEGMENT INFORMATION

During the year, the revenue of the Group was principally generated from: (i) congenital heart diseases business; (ii) peripheral vascular diseases business; and (iii) surgical vascular repair business. Financial information in respect of these operations is presented in Note 7 to the Consolidated Financial Statements in this report.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group had 513 (2012: 469) full time employees (including directors). Total staff costs, including Directors' emoluments, amounting to approximately RMB54.5 million for the year 2013 (2012: approximately RMB49.9 million). In respect of retirement benefit scheme, the defined contribution plan is adopted by the Group. In 2013, the amount of contributions to retirement benefits scheme is approximately RMB4.0 million (2012: approximately RMB2.9 million). Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The benefits provided by the Group to its employees include discretionary bonus, basic medical insurance, work injury insurance, unemployment insurance and share options to the employees. Discretionary bonus is linked to the performance of the Group as well as individual performance. The Group also arranges its staff for training to enhance their skills and knowledge.

ACHIEVEMENT OF BUSINESS OBJECTIVES

With reference to the disclosures in the IPO prospectus of the Company, the achievement of our business objectives as at 31 December 2013:

Business objectives for the period from 1 January 2013 to 31 December 2013		**Achieved business progress up to 31 December 2013**
Enhance Market Position of Core Cardiovascular and Peripheral Vascular Devices in Key Emerging Markets	We will cooperate with medical societies in China, India and Russia to drive professional education.	Lifetech has set up the exchanged centers of clinical academic globally to exchange advanced technique during operation at the scene with global clinicians.
	We will cooperate with selective charity organizations for patient charity work.	In 2013, we conducted several very successful interventional workshops in India for the patients from the economically weaker sections of the society with the help of the charity foundation. We have treated a total of 34 patients in this camp.
	We will establish additional sales and marketing team for our PTA and PCTA drug-eluting balloons.	These projects are delayed since the product is in the process of animal study.
	We will launch Fustar steerable introducers in South America.	We launched Fustar steerable introducers in South America, such as Argentina and Colombia.

Business objectives for the period from 1 January 2013 to 31 December 2013		Achieved business progress up to 31 December 2013
Continue to Develop and Commercialize Pipeline Products	We will commercially launch PTA/PCTA drug-eluting balloons in Brazil, Australia, Hong Kong and Southeast Asia.	We are still in the process of animal study for PTA and PTCA drug- eluting balloons.
	We will obtain CE certification for PTA/PCTA drug-eluting balloons.	These projects are delayed since they are in the process of animal study.
	We will submit PTA/PCTA drug-eluting balloon application to SFDA.	These projects are delayed since they are in the process of animal study.
	We will complete clinical study for LAA occluders.	LAA occluders clinical trials is continued in Europe, China and other Asian countries.
Expansion into Key International Markets with Current and Pipeline Products	We will expand our distribution network to cover key additional international markets.	We added sales network help in Eastern Europe in 2013 and are still expanding these efforts.
	We will launch Fustar steerable introducers in Australia and Canada.	The registration is yet to get for product Fustar steerable introducers in Canada.
	We will launch occluders in Korea.	The registration is yet to be done for product occluders in Korea.
	We will launch bovine heart valve in European Union Countries.	Medtronic has helped in our engineering and quality efforts in production of heart valve in 2013 and we prepare to re-launch the product heart valve in 2014.

Business objectives for the period from 1 January 2013 to 31 December 2013		Achieved business progress up to 31 December 2013
Expansion into Complementary Product Offerings	We will complete clinical trial study on peripheral stents.	Peripheral stent started clinical trial in 2013 in China.
	We will continue clinical study on bronchical valve.	We finished the pre-research phase with positive outcome on bronchial valve, and we changed its name as lung volume reduction device to set the intended use to reduce lung volume .
Pursue Opportunistic Acquisitions, Partnerships, Alliances and Licensing Opportunities	We will evaluate and explore acquisitions, partnerships, alliances and licensing opportunities.	As published in the announcement dated 27 January 2014, Medtronic and the Company are eager to expand upon our strategic alliance with the signing of the Second Supplemental Services Agreement which expands both the scope and nature of the consulting services, know-how and expertise that Medtronic will provide Lifetech through our strategic alliance.

The business objectives as stated in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus while the achievements were applied in accordance with the actual development of the market and the Company.

DIRECTORS

EXECUTIVE DIRECTORS

XIE Yuehui (謝粵輝), aged 44, is our chairman and has been appointed as a Director with effect from August 2006 and as an executive Director with effect from 22 October 2011. Mr. Xie has served as the director of Lifetech Scientific (Shenzhen) Co., Ltd. ("Lifetech Shenzhen") since October 2000 and was promoted to serve as the chairman of Lifetech Shenzhen since 2005. Mr. Xie is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Mr. Xie has 22 years of experience in business management in the PRC, of which over 10 years was in medical device industry. From 1991 to 1993, Mr. Xie served as the project manager of Eastern Tantalum Group (東方鉭業集團). From June 1993 to January 1994, Mr. Xie served as the investment manager at a subsidiary of China Southern Securities (南方證券), and was responsible for project investment. From February 1994 to February 1996, Mr. Xie served as the deputy general manager at an investment branch of Bank of China, Jilin Province, and was responsible for managing investment projects involving futures. From February 1996 to December 1998, Mr. Xie served as the manager at the domestic trade department of Shenzhen Huihua Group (深圳市匯華集團), and was responsible for overall trade management. Since June 1998, Mr. Xie served as general manager at Shenzhen Huishibang Technology Company Limited (深圳市匯世邦科技有限公司) and was promoted to serve as the chairman in 2000. During this time, Mr. Xie was responsible for overall business management. Mr. Xie graduated from Kunming Institute of Technology (昆明工學院) in July 1991 with a bachelor's degree in materials specialising in pressurized processing of metals (金屬壓力加工專業). He also obtained a master's degree in Business Administration from Tsinghua University in July 2006.

ZHAO Yiwei Michael (趙亦偉), aged 47, is our executive Director with effect from 22 October 2011 and Chief Executive Officer principally in charge of the daily operations of the Group. Mr. Zhao joined our Group in April 2010 as the Chief Executive Officer and has over 23 years of experience in general corporate management at multinational medical and life science companies in major global markets, including the US, Europe, Australia and the PRC. From 1990 to 1991, Mr. Zhao served as the assistant store manager at K-mart Corporation in Canada. From 1992 to 1994, Mr. Zhao served as the vice-president (sales and marketing) at Golden Capital Securities Inc. in Canada, and was responsible for directing sales and marketing activities. From 1995 to 1996, Mr. Zhao served as the national sales manager (analytical instruments) of Ciba Geigy AG and was responsible to lead product localization initiatives. From 1998 to 2007, Mr. Zhao held several senior management positions at Johnson & Johnson Medical's Cordis Corporation, one of the world's leading developer and manufacturer of minimally invasive treatments and products for vascular diseases. These positions include the global project manager of Cordis USA, European marketing manager of Cordis Belgium, group marketing manager of Cordis Australia and general manager of Cordis China. During this time, Mr. Zhao was responsible for the development and implementation of corporate strategies and establishment of a national distribution network. Mr. Zhao has earned numerous awards, including the Marketing Person of the Year (Australia) in 2000 issued by Johnson & Johnson Medical Australia, and Global and Regional Awards for Outstanding Business Performance for three consecutive years in 2002, 2003 and 2004 issued by Johnson & Johnson Medical Asia Pacific. Mr. Zhao obtained a bachelor of science degree majoring in management from Huntington College in July 1990. Mr. Zhao also obtained a master's degree in business administration from Richard Ivey School of Business of the University of Western Ontario in July 1998.

NON-EXECUTIVE DIRECTOR

MARTHA Geoffrey Straub aged 44, was appointed as a non-executive director of our Company with effect from 30 January 2013. Mr. Martha holds a Bachelor of Science in Finance from Pennsylvania State University. Mr. Martha has over 20 years of experience in the medical device industry, and is currently the Senior Vice President of Strategy and Business Development at Medtronic. Prior to joining Medtronic, Mr. Martha worked at GE Healthcare, a medical technologies and services provider, where he was responsible for the company's global business development efforts.

WU Jianhui (鄔建輝), aged 43, is our non-executive Director and has been serving as a director of the Company since September 2006. Mr. Wu has over 21 years of experience in accounting and general corporate matters. Mr. Wu joined Dahua Certified Public Accountants Firm (大華會計師事務所) in 1992 and was promoted to serve as a partner in 1997, providing accounting and financial consulting services to Hong Kong and PRC listed companies and assisting various PRC companies to obtain finances overseas. From May 2004 to June 2010, Mr. Wu served as an independent non-executive director of Yantai North Andre Juice Co., Ltd., which was previously listed on GEM (Stock Code: 8259) and was subsequently transferred to Main Board (Stock Code: 2218) in January 2011. Mr. Wu is a member of the fifth session of Chinese People's Political Consultative Conference, Shenzhen Municipal Committee (深圳市政協) since 2010, part-time instructor of master degree candidates at Hehai University Business School (河海大學商學院) since 2009, part-time instructor at the International Business School at Zhongshan University (中山大學國際商學院) since 2010 and a council member of Shanghai University of Finance and Economics (上海財經大學) since November 2012. Mr. Wu graduated from Shanghai University of Finance and Economic with a bachelor's degree majoring in accounting in July 1992. Mr. Wu obtained an EMBA (高級管理人員工商管理碩士) from Peking University Guanghua School of Management (北京大學光華管理學院) in January 2005.

DR. LIDDICOAT John Randall aged 50, was appointed as a non-executive director of our Company with effect from 30 January 2013. Dr. Liddicoat holds a Bachelor of General Studies from the University of Michigan, a Doctor of Medicine from the University of Chicago and a Master of Business Administration from Boston University School of Management. Dr. Liddicoat was a cardiothoracic surgeon who, prior to joining the medical device industry, most recently practiced at the Beth Israel Deaconess Medical Center in Boston where he also held an appointment as Assistant Professor of Surgery at Harvard Medical School. Dr. Liddicoat is currently Senior Vice President and President of Medtronic's Structural Heart business. Prior to joining Medtronic, Dr. Liddicoat founded two medical device companies, and served as a consultant to several venture capital firms and medical device companies.

JIANG Feng (姜峰), aged 51, was appointed as a non-executive Director of our Company with effect from 1 April 2014. Mr. Jiang is currently standing vice president of China Association for Medical Devices Industry, chairman of China Strategic Alliance of Medical Devices Innovation, deputy director of Biomedical Engineering Education Steering Committee of the Ministry of Education (教育部學生物工程專業教育指導委員會), executive director of China Instrument and Control Society and chairman of its medical devices branch, executive director of Chinese Society of Biomedical Engineering, Chinese Society for Biomaterials and China Association for Disaster & Emergency Rescue Medicine, researcher of Zhejiang University and director of Biomedical Technology Assessment Centre of Zhejiang University (浙江大学生物醫學技術評估中心) and president of the magazine China Medical Device Information. Mr. Jiang is an independent non-executive director of Guangdong Biolight Meditech Co., Ltd., Grandhope Biotech Co., Ltd and Zhejiang Tiansong Medical Instrument Co., Ltd, all companies being listed on the Shenzhen Stock Exchange. Mr. Jiang has worked for 12 years as a clinician before he left the hospital in 1997 to establish a business. By reason of his outstanding achievements, Mr. Jiang was introduced as special talent by SASAC to act as a leader of national large medicine and device companies in a long term, including as chairman and general manager of China National Pharmaceutical Group Corporation North West Company and China National Medical Equipment Co., Ltd, during the period he charged or participated in restructuring, mergers and acquisitions and transformation for listing of nearly 40 relevant companies. Mr. Jiang has served as general manager of China National Medical Equipment Co., Ltd for 9 years, during which he accomplished the substantial transformation of the enterprise from exhibition business to production and operation of device by establishing China's first Sino-foreign joint venture medical device distribution company and growing it the largest domestic medical device distributor within 5 years. He has been president and standing vice president of China Association for Medical Devices Industry for 12 years, during which period he visited and studied over a thousand of member enterprises. For around 5 years after acting as chairman of China Strategic Alliance of Medical Devices Innovation, he has assisted the science and technology department and local science and technology bureaus in assessing subjects of hundreds of medical device projects and conducting subsequent management, which involved 863 Program and supporting projects expensing more than RMB1 billion in total. Benefiting from his long term work in the industry, Mr. Jiang is expert at the operation and management of medical companies and understands development trend of the industry, in particular, he is much experienced in industrial innovation and international marketing. Mr. Jiang graduated from the Fourth Military Medical University with a degree of bachelor of medicine in 1985 and received his doctoral degree of clinical surgery in 1995 from the Fourth Military Medical University. He obtained an EMBA degree from Tsinghua University in 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIANG Hsien Tse Joseph (梁顯治), aged 59, was appointed as an independent non-executive Director of our Company with effect from 22 October 2011. Mr. Liang has extensive experience in finance and accounting. From November 1993 to August 2001, Mr. Liang served as the finance manager at Hong Kong International Terminals Limited for Yantian International Container Terminals, both companies being container terminal companies managed by the Hutchison Port Holdings Trust. From August 2001 to October 2005, Mr. Liang served various roles at Skyworth Digital Holdings Limited listed on the Main Board (Stock Code: 751), including the group's financial controller and company secretary in charge of finance and MIS functions of the Group. From October 2005 to December 2008, Mr. Liang served as a director at Shenzhen Alclear Consulting Limited, a company engaging in financial, corporate management and investment consultancy services, and was responsible for developing accounting training in China. Since October 2009, Mr. Liang was the managing director of the financial planning and development department at United International College in Zhuhai, PRC, and was responsible for serving financial advisory and human resources management functions. Since October 2011, Mr. Liang has been serving as special consultant on campus development at the College. Mr. Liang graduated from Hong Kong Open University with a bachelor's degree in language and translation in December 2007. Mr. Liang obtained a master's degree in professional accounting from University of Texas, Austin in May 1981 and a diploma in business management from Hong Kong Baptist College in December 1977. Mr. Liang has been a member of the Texas Society of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants (formerly known as "Hong Kong Society of Accountants") since June 1982 and Association of Certified Chartered Accountants (ACCA) since May 1982. On 19 February 2013, Mr. Liang was appointed as an independent non-executive Director of North Asia Strategic Holding Limited, a company listed on GEM (Stock Code: 8080) for a term of three years.

ZHOU Gengshen (周庚申), aged 47, was appointed as an independent non-executive Director of our Company with effect from 22 October 2011. Mr. Zhou has over 23 years of experience in information technology engineering. Since August 1989 till present, Mr. Zhou has held several positions at China Great Wall Computer Group (Shenzhen) Co., Ltd. (中國長城計算機集團(深圳)公司), including technician, assistant engineer, and R&D manager of its printers business department. Since 1997, Mr. Zhou has held several positions at China Great Wall Computers Shenzhen Co., Ltd. (中國長城計算機深圳股份有限公司) ("Great Wall Computers"), a company listed in the PRC (Stock Code: 66). Mr. Zhou is currently the director and chief executive officer of Great Wall Computers and is responsible for business management. Mr. Zhou has received numerous awards, including Brand China Person of the Year (品牌中國年度人物) in 2007, and Most Economically Influential Person of the Year in the Information Technology Industry of China (中國信息產業年度經濟人物) in 2008 and 2010. Mr. Zhou graduated from Tsinghua University's department of precision instruments with a bachelor's degree in July 1989. Mr. Zhou obtained a EMBA degree from Tsinghua University's school of economics and management in July 2009.

ZHOU Luming (周路明), aged 55, was appointed as an independent non-executive Director of our Company with effect from 1 April 2014. Mr. Zhou is currently a dean of the Southern Institute of Science and Technology of Space. He was a teacher in South-Central University for Nationalities from July 1984 to May 1992, during which his professional article Systems Science (系统科學) was published with release of certain papers. From May 1992 to September 2001, he served with Shenzhen Technology Bureau (深圳市科技局) as head of the compliance division, director of general office and head of the planning division, taking charge of the formulation of a series of major legislations and research on decision-making work. Mr. Zhou acted as deputy dean of Research Institute of Tsinghua University in Shenzhen from September 2001 to May 2004. He was deputy director of Shenzhen Technology Bureau from May 2004 to May 2008. During the period from 2005 to 2008, Mr. Zhou presided over series of study on innovative cities. From 2008 to March 2014, he has established a good number of private-funded research institutes with international advanced level, which involved metamaterial, new energy and precise manufacturing, during the period when he served as chairman of Shenzhen Science and Technology Association. His experience in directing the restructuring of Shenzhen Science and Technology Association was highly regarded by major leaders of China Association of Science and Technology with promotion in the system of the association of science and technology. Mr. Zhou graduated in 1984 from the Department of Physics, Central China Normal University, and received his EMBA degree after graduating from Tsinghua University in 2005.

SENIOR MANAGEMENT

ZHANG Deyuan (張德元) aged 50, is our Chief Technology Officer principally in charge of research and development of our Group. Mr. Zhang joined our Group in October 2006 as a research and development director and has over 24 years of experience in research and development in materials. From 1981 to 1983, Mr. Zhang served as a technician at the Huainan Coal Mine Machinery Plant of the Formerly Ministry of Coal (原煤炭部淮南煤礦機械廠), and was responsible for the technical operation in relation to metal materials. From 1990 to 2002, Mr. Zhang served as the deputy director of Institute of Applied Physics and chairman of laser R&D center at Jiangxi Academy of Sciences (江西科學院), and was responsible for the R&D of new materials and surface processing technology. During this time, Mr. Zhang completed six technology projects (provincial level) and received three technology advancement and technology innovation awards granted by the provincial government. From 2002 to 2006, he served as the director at the R&D department of the National R&D Centre for Surface Engineering of PRC (國定863計劃材料表面技術研究開發中心), and was responsible for the R&D of the material surface ion implantation, PVD, PCVD and micro-arc oxidation technology. In 2006, he served as the manager of surface coating department of Lung Kee Group in Hong Kong (香港龍記集團), and was responsible for the development of mold surface special coating process Mr. Zhang graduated from Anhui University of Technology (安徽工學院) with a major in casting technology and equipment in August 1987. He obtained master's degree in Southeast University (東南大學) majored in material science and engineering in May 1990. Mr. Zhang then obtained a doctorate's degree in University of Science and Technology, Beijing's (北京科技大學) department of physical chemistry in June 2001. Mr. Zhang obtained a special subsidy from the State Department of PRC in 2000 for his excellence in scientific research, and received a professorship at the Chinese Academy of Sciences in 2003.

LIU Jianxiong (劉劍雄) aged 43, is the Chief Financial Officer and company secretary of our Group. Mr. Liu joined us in September 2010. Mr. Liu has about 20 years' experience in the accounting fields. He started his career as an auditor at Kwan Wong Tan & Fong (currently Deloitte Touche Tohmatsu) in 1993, and was primarily responsible for carrying out audits and consultancy work. Mr. Liu then continued to work with a number of multinational companies. From 1997 to 2001, he was the accounting services manager of Yantian International Container Terminal Company Limited (鹽田國際集裝箱碼頭有限公司). From 2001 to 2003, Mr. Liu was the financial controller of Shenzhen Schlumberger Electronic System Solution Co., Ltd (深圳斯倫貝謝電子系統有限公司). From March 2007 to July 2007, Mr. Liu was the China financial controller of the China Light & Power Group renewable energy division. From December 2007 to February 2010, Mr. Liu was the Great China corporate controller of AnyDATA Group, and was responsible for financial management, accounts audit, tax planning, raising capital and preparation of financial accounts in accordance with accounting standards in PRC, U.S. and Hong Kong. He has been a member of the Association of Chartered Certified Accountants since 1997 and a registered tax agent since 1999. Mr. Liu graduated from Zhongshan University's Physics department majoring in modern physics technology in July 1990. He obtained a master's degree in business administration from University of Glamorgan in the United Kingdom in December 2004.

ZHAN Guowei (湛國威) aged 37, is our Domestic Sales Director principally responsible for domestic sales in the PRC. Mr. Zhan joined our Group in August 2010 as a sales director, and has more than 13 years of experience in the sales of medical devices. From July 1999 to June 2009 , Mr. Zhan served as a territory assistant and was promoted to national sales manager at Johnson & Johnson (Shanghai) Medical Company Limited (強生(上海)醫療器材有限公司), and was responsible for overall domestic sales management. During his employment with Johnson & Johnson (Shanghai) Medical Company Limited, from January 2007, Mr. Zhan also served as the national sales manager at Johnson & Johnson Biosense Webster Electrophysiology Products Division (強生Biosense Webster電生理產品組) overseeing its domestic sales management . From October 2009 to July 2010, Mr. Zhan served as the national sales manager at the AF electrophysiology department of St. Jude (Shanghai) Medical Co., Ltd. (聖猶達(上海)醫療用品有限公司). Mr. Zhan graduated from Zhongshan University's (中山大學) international trade and finance department with a bachelor's degree in international finance in June 1999.

Mark CIBUZAR aged 56, is our Overseas Sales Director principally in charge of international sales. Mr. Cibuzar joined our Group in November 2009 as a sales director and has more than 27 years of experience in the sales and marketing of medical equipment. From May 2008 to October 2009, Mr. Cibuzar served as the Vice-President (International Sales and Marketing) at Occlutech International GmbH, and was responsible for developing and executing sales and marketing plans. From May 2007 to April 2008, Mr. Cibuzar served as an independent medical device consultant and was responsible for client consultation in the areas of congenital and structural heart diseases. From December 2001 to April 2007, Mr. Cibuzar served as the Director at the international sales and marketing department of AGA Medical Corporation, and was responsible for international sales and marketing. From August 1997 to November 2001, Mr. Cibuzar served as the senior marketing manager of Microvena Corporation's global cardiology business, and was responsible for marketing, training and providing programming support. From March 1995 to August 1997, Mr. Cibuzar served as the senior marketing manager at Arizant Medical, Inc.'s wound care division, and was responsible for developing and commercializing new therapeutic device in the US. From February 1993 to February 1995, Mr. Cibuzar served as the market development manager at the heart valve division of St. Jude Medical, Inc., and was responsible for diversifying the heart valve division's product portfolio via technology licensing and distribution agreements. From June 1990 to February 1993, Mr. Cibuzar served as the product marketing manager at the cardiology division of Schneider USA Inc. and was responsible for marketing. From September 1987 to June 1990, Mr. Cibuzar served as the sales representative and trainer at the Deseret IV division of Becton-Dickinson, Inc., and was responsible for products sales and training to sales representatives. From 1985 to September 1987, Mr. Cibuzar served as the sales representative and trainer of General Medical Corporation and was responsible for international sales and marketing. Mr. Cibuzar graduated from University of Minnesota with a bachelor's degree majoring in political science in March 1980, and obtained a master's degree in business administration at Indiana W. University in January 1990.

Sajeevan MANIKKOTH aged 42, is our India Sales Director principally in charge of sales and marketing in India. Mr. Manikkoth joined our Group since April 2006 and has more than 12 years of experience in sales and marketing. From December 2000 to March 2006, Mr. Manikkoth served as business head of Edwards Lifesciences India Pvt. Ltd.. From February 1999 to November 2000, Mr. Manikkoth served as country sales manager in Core Healthcare Limited, a company in India which produces and markets pharmaceutical and healthcare products. From August 1996 to January 1999, Mr. Manikkoth served as sales manager in Wockhardt Ltd, a pharmaceutical and biological company in India. Mr. Manikkoth graduated from University of Calicut in March 1992 with a bachelor's degree in science. Mr. Manikkoth obtained a post graduate diploma in sales and marketing from National Institute of Sales in March 1996 and a diploma in export management from Indian Institute of Export Management in September 1998.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance to safeguard the interest of its shareholders and enhance its corporate value. Save as disclosed, throughout the year ended 31 December 2013 and up to the date of this annual report, the Company has complied with the code provisions ("Code Provision(s)") of the Corporate Governance Code (the "Main Board CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 6 November 2013 and the Code Provision(s) of the Corporate Governance Code (the "GEM CG Code") as set out in Appendix 15 in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the " GEM Listing Rules") from 1 January 2013 to 5 November 2013 (collectively the "CG Code") except for the following deviations

Code Provision A.6.7

As set out in Code Provision A.6.7 of the CG Code, non-executive directors, including independent non-executive directors should attend the board committee and general meeting of the Company. During the year ended 31 December 2013, two general meetings were held on 21 January 2013 and 28 June 2013 and Chairman Xie Yuehui attended both general meetings, and the independent non-executive directors Liang Hsien Tse Joseph and Zhou Gengshen attended the general meeting held on 28 June 2013, but other non-executive directors did not attend the said general meetings. The Company will improve its meeting schedule to avoid such non-compliance in the future.

Code Provision E.1.2

As set out in Code Provision E.1.2 of the CG Code, the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. The chairman of the independent board committee did not attend the extraordinary general meeting which was held on 21 January 2013. The Company will improve its meeting schedule to avoid such non-compliance in the future.

In July 2013, the Board identified two non-compliant incidents and discovered that the Company was unable to publish announcement for two discloseable transactions in a timely manner as required under the Listing Rules due to inadvertent oversight. For details, please refer to the announcements of the Company dated 5 July 2013 and 12 July 2013. The Board intends to improve its internal control measures, and implemented the Company's disclosure improvement procedures recently as a remedial measure by taking the following steps:

(i) The Company has appointed Mr. Liu Jianxiong, Company Secretary and Chief Financial Officer, and Ms. Floret Hu, Financial Reporting Manager of the Company to be the Company's internal compliance coordinators (the "Internal Compliance Coordinators"), who will ensure that all future transactions entered into by the Company or any member of the Group which are subject to any announcement requirements under the Listing Rules will be disclosed on a timely basis.

(ii) The Company determined a threshold contract amount (the "Threshold") for a potential transaction with reference to the latest published financial statements of the Company. The Threshold has been set in the manner in which if exceeded, the potential transaction is likely to be classified as a notifiable or connected transaction under Listing Rules. The Threshold has been updated after the publication of the Company's interim and financial results each year, and the Internal Compliance Coordinators informed every member of the Board the pre-set Threshold on a periodic basis. When the Company or any member of the Group intends to enter into a transaction that may exceed the Threshold, both of the Internal Compliance Coordinators must be informed of the timetable and the progress of the transaction, and they will consult with the Company's compliance adviser and independent legal advisers on the Company's disclosure obligations under Listing Rules before approving the transaction. The Internal Compliance Coordinators are also responsible to report to Mr. Zhao Yiwei Michael, the Compliance Officer of the Company on potential compliance issues, who will in turn advise the Board accordingly ("Threshold Reporting System").

(iii) The Company arranged training sessions for the Directors, senior management members and Internal Compliance Coordinators on disclosure obligations and transactions which are likely to be notifiable and connected transactions under Listing Rules as well as introducing and explaining the Threshold Reporting System. The training sessions will be given by the Company's independent Hong Kong legal advisers on a regular basis.

(iv) Mr. Xie Yuehui, chairman of the Board, raised the disclosure issue in the Board meeting so as to raise the level of compliance awareness among his fellow Board members. He also urged them to look out for any future transactions that may have disclosure implications under the Listing Rules.

With the new measures implemented, the Board is confident that all transactions which are required to be disclosed under the Listing Rules will be processed and announced properly in the future.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry on all Directors, each of the Directors has confirmed that he/she has complied with the required standard of dealings as set out in the Model Code of conduct regarding Directors' securities transactions from the date of listing of the Company's Shares on the Stock Exchange up to 31 December 2013.

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises two executive directors, four non-executive directors and three independent non-executive directors, and changes to the board members during 2013 and up to the date of this annual report are as follows:

Executive Directors

XIE Yuehui *(Chairman)*
ZHAO Yiwei Michael *(Chief Executive Officer)*

Non-executive Directors

WU Jianhui
MARTHA Geoffrey Straub (appointed on 30 January 2013)
LIDDICOAT John Randall (appointed on 30 January 2013)
LI Gabriel (resigned on 22 January 2013)
CONG Ning (resigned on 22 January 2013)
JIANG Feng (appointed on 1 April 2014)

Independent Non-executive Directors

LIANG Hsien Tse Joseph
ZHANG Xingdong (resigned on 1 April 2014)
ZHOU Gengshen
ZHOU Luming (appointed on 1 April 2014)

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. The biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" in this annual report.

There is no relationship (including financial, business, family or other material/relevant relationships) between board members and in particular, between the chairman and the chief executive.

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies and directions for the Group with a view of developing its business and enhancing shareholders' value. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The Board delegates day-to-day activities to the management with department heads responsible for different aspects of the business. Management is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board's approval. The non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings. They are also serving on the audit committee, the remuneration committee and the nomination committee of the Company.

During the year, the Board complies at all times with the requirement of the Listing Rules relating to the appointment of at least three independent non-executive Directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. The Company has received an annual confirmation of his independence from each of the independent non-executive Directors and considers that their independence is in compliance the Listing Rules as at the date of this report.

During the year ended 31 December 2013, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance.

The attendance record of each member of the Board is set out below:

Name of Director	Attendance/ Number of Board meetings held	Attendance/ Number of general meetings held
EXECUTIVE DIRECTORS		
XIE Yuehui *(Chairman)*	4/4	2/2
ZHAO Yiwei Michael *(Chief Executive Officer)*	4/4	1/2
NON-EXECUTIVE DIRECTORS		
WU Jianhui	4/4	0/2
LI Gabriel (resigned on 22 January 2013)	N/A	0/1
CONG Ning (resigned on 22 January 2013)	N/A	0/1
MARTHA Geoffrey Straub (appointed on 30 January 2013)	4/4	0/1
LIDDICOAT John Randall (appointed on 30 January 2013)	4/4	0/1
JIANG Feng (appointed on 1 April 2014)	N/A	N/A
INDEPENDENT NON-EXECUTIVE DIRECTORS		
LIANG Hsien Tse Joseph	4/4	1/2
ZHANG Xingdong (resigned on 1 April 2014)	4/4	0/2
ZHOU Gengshen	4/4	1/2
ZHOU Luming (appointed on 1 April 2014)	N/A	N/A

During the year of 2013, all of the then current Directors participated in the corporate governance and Main Board Listing Rules training organised by the Company's Hong Kong legal advisor in 2013 either in person or by way of telephone conference, and the Company has kept the relevant training records. Prior to the appointment of Mr. Martha Geoffrey Straub and Dr. Liddicoat John Randall, each of them attended a directors' training seminar conducted by the Company's Hong Kong legal advisor on 16 January 2013 as an introduction to the Hong Kong legal and regulatory regime for Hong Kong listed companies. On 4 April 2014, the newly appointed Director Mr. Jiang Feng and Mr. Zhou Luming attended a director's training seminar conducted by the Company's Hong Kong legal advisor as an introduction to the Hong Kong legal and regulatory regime for Hong Kong listed companies.

Corporate Governance Functions

The Company complied with Code Provision D.3.1 of the Main Board CG Code as the Board had approved and adopted the updated Terms of Reference of the Board on Corporate Governance Functions with effect from 8 November 2013.

Chairman and Chief Executive Officer

The Company complied with the in Code Provision A.2.1 of the CG Code that the roles of chairman of the Board (the "Chairman") and chief executive officer (the "CEO") should be separate and should not be performed by the same individual. The Chairman is Mr. XIE Yuehui and the CEO is Mr. ZHAO Yiwei Michael. The Board believes that this enables the corporate governance structure of the Company to be more effective.

Non-executive Director

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term and subject to re-election. The Company's non-executive directors have been appointed for an initial term of three years and the Company's independent non-executive directors have been appointed for an initial term of one year. All of the Company's non-executive directors in position as at 31 December 2013 are subject to re-election.

On 22 January 2013, Mr. Li Gabriel and Ms. Cong Ning resigned as non-executive directors of the Company. On 30 January 2013, Mr. Martha Geoffrey Straub and Dr. Liddicoat John Randall were appointed as non-executive directors of the Company. On 1 April 2014, Mr. Zhang Xingdong resigned as an independent non-executive director of the Company, Mr. Zhou Luming was appointed as an independent non-executive directors of the Company and Mr. Jiang Feng was appointed as a non-executive director of the Company.

COMMITTEES

As part of the corporate governance practices, the Board has established a nomination committee, a remuneration committee and an audit committee. All of the committees are composed of non-executive directors and independent non-executive directors with terms of reference in accordance with the principles set out in the CG Code.

Audit Committee

We established an audit committee (the "Audit Committee") on 22 October 2011 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and with updated written terms of reference adopted on 8 November 2013 in compliance with Rules 3.21 to 3.23 of the Main Board Listing Rules . As at the date of this report, the Audit Committee consists of three members, the majority of whom are independent non-executive directors, namely Mr. Liang Hsien Tse Joseph, a director with the appropriate professional qualifications who serves as the chairman of the Audit Committee, Mr. Wu Jianhui and Mr. Zhou Gengshen.

The primary duties of the Audit Committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

During the year ended 31 December 2013, the Audit Committee held four meetings and performed the following duties:

(1) reviewed and commented on the Company's draft annual, interim and quarterly financial results announcements;

(2) reviewed and commented on the Group's internal control measures; and

(3) met with the external auditors and participated in the reappointment and assessment of the performance of the external auditors.

The Group's annual audited results for the year ended 31 December 2013 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

The Audit Committee held four meetings during the year ended 31 December 2013 and all the members attended the meetings.

Remuneration Committee

We established a remuneration committee (the "Remuneration Committee") on 22 October 2011 in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules, with updated written terms of reference adopted on 8 November 2013 in compliance with Rules 3.25 to 3.27 of the Listing Rules. As at the date of this report, the Remuneration Committee consisted of three members, the majority of whom are independent non-executive directors. Mr. Zhou Gengshen served as the chairman of the Remuneration Committee while Mr. Liang Hsien Tse Joseph and Mr. Martha Geoffrey Straub served as members.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and (iv) considering the grant of share options to eligible participants pursuant to the share option scheme adopted by the Company on 22 October 2012 (the "Share Option Scheme").

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

Nomination Committee

We established a nomination committee (the "Nomination Committee") on 22 October 2011, with updated written terms of reference adopted on 8 November 2013 in compliance with paragraph A.5.2 of the Main Board CG Code. As at 31 March 2014, the Nomination Committee consisted of three members, the majority of whom were independent non-executive directors, namely Mr. Liang Hsien Tse Joseph who served as the chairman of the nomination committee, Mr. Xie Yuehui and Mr. Zhang Xingdong. On 1 April 2014, Mr. Zhang Xingdong resigned as a member of the Nomination Committee, and Mr. Zhou Luming was appointed as the chairman of the Nomination Committee. Accordingly, Mr. Liang Hsien Tse Joseph ceased to be the chairman of the Nomination Committee but remained as a member.

The members of the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it is appropriate for the requirements of the business of the Company.

The Board has adopted a board diversity policy on 19 August 2013. The Company recognises the benefits of having a diverse Board, and sees diversity at Board level is essential in achieving a sustainable and balance development. For recommending suitable candidates to the Board, the Nomination Committee will take into consideration merit of the candidates, including but not limit to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

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

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

AUDITORS' REMUNERATION

The remuneration in respect of audit service provided by the auditors, Deloitte Touche Tohmatsu, to the Company in the year 2013 amounting to approximately RMB1.8 million and there was not non-audit service provided in the year 2013, in comparison with the payment amounting to approximately RMB1.7 million and RMB0.3 million respectively for the year 2012. Non-audit service provided by Deloitte Touche Tohmatsu was related to tax consultation.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

During the year, the Board also has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control. The Board will continue to assess the effectiveness of internal controls by considering reviews performed by the Audit Committee , executive management and the Internal Compliance Coordinators.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements, which give a true and fair view of the results and financial position of the Group. The auditors are responsible to form an independent opinion based on the audit, on the consolidated financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

COMPANY SECRETARY

In 2013, the Company Secretary took the relevant professional training of 24 hours relating to general corporate governance issues.

SHAREHOLDERS' RIGHTS

Pursuant to Article 12.3 of the Company's Articles of Association, an extraordinary general meeting shall be convened on written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the 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.

There is no provision allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

In relation to the proposal of a person for election as a director, please refer to the procedures available on the corporate website of the Company at www.lifetechmed.com.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's principal place of business in Hong Kong at 31/F, 148 Electric Road North Point, Hong Kong.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investors.

Certain changes will be made to the aforesaid procedures pending adoption of the new Memorandum and Articles of Association of the Company at the forth coming annual general meeting and the relevant information posted on the Company's and the Stock Exchange's website will also be updated in due course.

The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly report and notices, announcements and circulars. The corporate website of the Company (www.lifetechmed.com) provides a communication platform to the public and the shareholders. In March 2012, the Board has also established a written shareholders' communication policy and will review it on a regular basis to ensure its effectiveness.

Report of the Directors

The Board of Directors is pleased to present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are principally engaged in the manufacturing and marketing of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. For further details on the principal activities of its subsidiaries, please refer to Note 40 to the consolidated financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Group at that date are set out in the consolidated financial statements.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2013.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing in November 2011, after deduction of related expenses, amounting to approximately HK$156.6 million. These proceeds will be fully applied in accordance with the proposed applications set out in the Prospectus, as follows:

- Approximately 35%, or HK$55.5 million, to support our product offerings to enhance our research and development of new products.
- Approximately 55%, or HK$85.9 million, to expand our manufacturing facilities.
- Approximately 10%, or HK$15.2 million, to expand our sales, marketing and distribution activities in key emerging markets and key international markets.

The Company has used approximately HK$130.1 million, approximately 83.1% of the net proceeds to research and development, expansion of our sales network and acquisition. The unused proceeds had been placed in interest bearing deposit accounts maintained with banks in Hong Kong and Shenzhen, China.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out in the financial summary on page 114 of this annual report. The summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 23.8% of the Group's total sales and sales to the largest customer included therein amounting to approximately 11.7%.

The aggregate purchases during the year attributable to the Group's five largest suppliers were approximately 43.1% of the Group's total purchases and purchases from the largest supplier included therein amounting to approximately 11.0%.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

SHARE CAPITAL AND SHARE OPTION

Details of the movements in share capital of the Company during the year of 2013 are set out in Note 32 to the consolidated financial statements. During the year of 2013, the Company has not granted or issued any share option under the Share Option Scheme.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013, the Company's reserves available for distribution to its owners amounting to approximately RMB169.0 million.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statement.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is 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 as at the date of this report.

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.

DIRECTORS

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

Executive Directors

XIE Yuehui *(Chairman)*
ZHAO Yiwei Michael *(Chief Executive Officer)*

Non-executive Directors

WU Jianhui
MARTHA Geoffrey Straub (appointed on 30 January 2013)
LIDDICOAT John Randall (appointed on 30 January 2013)
LI Gabriel (resigned on 22 January 2013)
CONG Ning (resigned on 22 January 2013)
JIANG Feng (appointed on 1 April 2014)

Independent Non-executive Directors

LIANG Hsien Tse Joseph
ZHANG Xingdong (resigned on 1 April 2014)
ZHOU Gengshen
ZHOU Luming (appointed on 1 April 2014)

Pursuant to the articles of association of the Company and Code Provision A.4.2 of the Main Board CG Code, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company ("AGM"), provided that every Director shall be subject to retirement at an AGM at least once every three years. All directors in position as at 31 December 2013 will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

On 1 April 2014, Mr. Zhang Xingdong resigned as an independent non-executive director of the Company, Mr. Jiang Feng was appointed as a non-executive director of the Company and Mr. Zhou Luming was appointed as an independent non-executive director of the Company, Mr. Jiang Feng and Mr. Zhou Luming will retire and being eligible, offer themselves for re-election at the AGM.

Board of Directors and Senior Management

Biographical information of the directors and senior management of the Group are set out on part of "Biographical Details of Directors and Senior Management" in this annual report.

DIRECTOR'S SERVICE CONTRACTS

Mr. Xie Yuehui, the executive director of the Company and chairman of the Board has signed a service contract with the Company for an initial term of three years commencing from 10 November 2011, which is subject to automatic renewal every three years on the same terms and conditions until terminated by either party giving to the other party forthcoming not less than three months' notice in writing.

Mr. Zhao Yiwei Michael has been appointed as an executive director by way of a service contract with the Company for an initial term of three years commencing from 10 November 2011, which is subject to automatic renewal every three years on the same terms and conditions until terminated by either party giving to the other party not less than three month's notice in writing.

Non-executive director Mr. Wu Jianhui has been appointed as the non-executive director by way of a service contract with the Company for an initial term of three years commencing from 10 November 2011, non-executive director Mr. Martha Geoffrey Straub and Mr. Liddicoat John Randall have been appointed as the non-executive director by way of a service contract with the Company for an initial term of three years commencing from 30 January 2013, and non-executive director Mr. Jiang Feng has been appointed as the non-executive director by way of a service contract with the Company for an initial term of three years commencing from 1 April 2014, which are subject to automatic renewal every three years on the same terms and conditions until terminated by either party giving to the other party not less than three months' notice in writing.

The independent non-executive directors, namely Mr. Liang Hsien Tse Joseph and Mr. Zhou Gengshen have been appointed as the independent non-executive director by way of a service contract with the Company for an initial term of one year commencing from 10 November 2011, and the independent non-executive director Mr. Zhou Luming has been appointed as the independent non-executive director by way of a service contract with the Company for an initial term of one year commencing from 1 April 2014, which are subject to automatic renewal on an annual basis on the same terms and conditions until terminated by either party giving to the other party not less than one month's notice in writing.

None of the directors who are proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

During the year, the Remuneration Committee reviewed the Group's emolument policy and structure for all remuneration of the directors and senior management of the Company, which are determined with reference to the Group's operating results, individual performance and comparable market practices.

The emoluments of the senior management of the Company were within the following bands:

	2013	2012
Total remuneration on individual basis		
Nil to RMB1,000,000	**4**	5
RMB1,000,000 to RMB2,000,000	**1**	2
RMB2,000,000 to RMB3,000,000	**—**	—

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five individuals with highest emoluments are set out in Note 11 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties.

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

As at 31 December 2013, the interests of directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long position in ordinary shares and underlying shares of the Company ("Shares")

Name of Director	Nature of interest	Number of Shares	Position	Percentage of the Company's issued share capital
XIE Yuehui ("Mr. XIE")	Interest of controlled corporation *(Note 1)*	98,739,366	Long	19.75%
WU Jianhui ("Mr. WU")	Interest of controlled corporation *(Note 2)*	72,683,332	Long	14.54%
ZHAO Yiwei Michael ("Mr. ZHAO")	Interest of controlled corporation *(Note 3)*	13,583,333	Long	2.72%

Note 1: These shares are held through Xianjian Advanced Technology Limited, a company wholly owned by Mr. XIE, the chairman and executive director of our Company.

Note 2: These shares are held through GE Asia Pacific Investments, Ltd., a company wholly owned by Mr. WU, a non-executive director of our Company.

Note 3: These shares are held through St. Christopher Investment Ltd., a company wholly owned by Mr. ZHAO, the chief executive officer and executive director of our Company.

Save as disclosed above, as at 31 December 2013, none of the directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2013, other than the interests of a director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests and short position in the shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

(a) Long positions in the Company

Name of Shareholder	Number of shares	Position	Capacity	Percentage of the Company's issued share capital
Xianjian Advanced Technology Limited	98,739,366	Long	Beneficial owner	19.75%
GE Asia Pacific Investments Ltd.	72,683,332	Long	Beneficial owner	14.54%
Prosperity International *(Note 1)*	32,600,000	Long	Beneficial owner	6.52%
Yi Xiqun *(Note 1)*	36,656,000	Long	Interest of controlled corporation	7.33%
Yu Fan *(Note 1)*	36,656,000	Long	Interest of controlled corporation	7.33%
Themes Investment Partners II, GP. L.P. *(Note 1)*	36,656,000	Long	Interest of controlled corporation	7.33%
Themes Investment Partners II, L.P. *(Note 1)*	36,656,000	Long	Interest of controlled corporation	7.33%
TIP II General Partner Limited *(Note 1)*	36,656,000	Long	Interest of controlled corporation	7.33%
Ally Investment Holdings Limited *(Note 1)*	32,600,000	Long	Interest of controlled corporation	6.52%
Wanhui Limited *(Note 1)*	32,600,000	Long	Interest of controlled corporation	6.52%
Medtronic KL Holdings LLC *(Note 2)*	95,000,000	Long	Beneficial owner	19.00%
Medtronic B.V. *(Note 2)*	95,000,000	Long	Interest of controlled corporation	19.00%
Medtronic Holding Switzerland G.m.b.H. *(Note 2)*	95,000,000	Long	Interest of controlled corporation	19.00%
Medtronic International Technology.Inc *(Note 2)*	95,000,000	Long	Interest of controlled corporation	19.00%
Medtronic, Inc *(Note 2)*	95,000,000	Long	Interest of controlled corporation	19.00%

Note 1: These Shares are held by Prosperity International, which is controlled by Themes Investment Partners II, L.P., which is managed by TIP II General Partner Limited and Themes Investment Partners II GP. L.P.. TIP II General Partner Limited is controlled by Wanhui Limited as to 54% and Ally Investment Holdings Limited as to 41%. Wanhui Limited is wholly-owned by Yi Xiqun and Ally Investment Holdings Limited is wholly-owned by Yu Fan ("Mr. Yu").

Note 2: These Shares are held by Medtronic KL Holdings LLC, which is wholly-owned by Medtronic Holding Switzerland G.m.b.H., which in turn is wholly-owned by Medtronic B.V.. Medtronic B.V. is wholly-owned by Medtronic International Technology, Inc., which is controlled as to 90.33% by Medtronic, Inc.

(b) Derivative interests

Name of Shareholder	**Number of underlying shares**	**Position**	**Capacity**	**Percentage of the Company's issued share capital**
Prosperity International *(Note 1)*	24,900,000	Long	Beneficial owner	4.98%
Themes Investment Partners II GP. L.P. *(Note 1)*	24,900,000	Long	Interest of controlled corporation	4.98%
Themes Investment Partners II, L.P. *(Note 1)*	24,900,000	Long	Interest of controlled corporation	4.98%
TIP II General Partner Limited *(Note 1)*	24,900,000	Long	Interest of controlled corporation	4.98%
Yi Xiqun *(Note 1)*	24,900,000	Long	Interest of controlled	4.98%
Yu Fan *(Note 1)*	24,900,000	Long	Interest of controlled corporation	4.98%
Ally Investment Holdings Limited *(Note 1)*	24,900,000	Long	Interest of controlled corporation	4.98%
Wanhui Limited *(Note 1)*	24,900,000	Long	Interest of controlled corporation	4.98%
Medtronic KL Holdings LLC *(Note 2 and 3)*	378,571,429	Long	Beneficial owner	75.71%
Medtronic B.V. *(Note 2 and 3)*	378,571,429	Long	Interest of controlled corporation	75.71%
Medtronic Holding Switzerland G.m.b.H. *(Note 2 and 3)*	378,571,429	Long	Interest of controlled corporation	75.71%
Medtronic International Technology, Inc. *(Note 2 and 3)*	378,571,429	Long	Interest of controlled corporation	75.71%
Medtronic, Inc. *(Note 2 and 3)*	378,571,429	Long	Interest of controlled corporation	75.71%

Note 1: These Shares are held by Prosperity International, which is controlled by Themes Investment Partners II, L.P., which is managed by TIP II General Partner Limited and Themes Investment Partners II GP. L.P.. TIP II General Partner Limited is controlled by Wanhui Limited as to 54% and Ally Investment Holdings Limited as to 41%. Wanhui Limited is wholly-owned by Yi Xiqun and Ally Investment Holdings Limited is wholly-owned by Mr. Yu.

Note 2: These Shares are held by Medtronic KL Holdings LLC, which is wholly-owned by Medtronic Holding Switzerland G.m.b.H., which in turn is wholly-owned by Medtronic B.V.. Medtronic B.V. is wholly-owned by Medtronic International Technology, Inc., which is controlled as to 90.33% by Medtronic, Inc.

Note 3: Capitalised terms used in this paragraph shall have the same meanings as those defined in the circular of the Company dated 6 January 2013. These Shares are the underlying Shares to be issued upon the full conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes pursuant to the terms and conditions under the Investment Agreement dated 14 October 2012. Completion of the subscription of the First Tranche Convertible Notes at the principal amount of HK$152 million, which are convertible into 40,000,000 new Shares at the conversion price of HK$3.80, took place on 30 January 2013. As at the date of this report, the Company has not been notified by the noteholder of its intention to convert the First Tranche Convertible Notes, and the subscription of the Second Tranche Convertible Notes is pending to be completed.

Save as disclosed above, as at 31 December 2013, the directors of the Company were not aware of any other person (other than the directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from the details as disclosed under the heading "Directors' and chief executive's interests and short positions in the 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.

DIRECTORS' INTERESTS IN CONTRACTS

The Company has been informed by Orchid Asia Group Management, Limited and its affiliates ("Orchid Asia") that Orchid Asia III. L.P. has, on 14 October 2012, entered into the share purchase agreement (the "Share Purchase Agreement") with Medtronic pursuant to which Orchid Asia agreed to sell and Medtronic agreed to purchase 95,000,000 shares of the Company ("Shares"), representing approximately 19% of the issued share capital of the Company as at the date of the Share Purchase Agreement, to Medtronic for a consideration of HK$361,000,000 at HK$3.80 per Share (the "Share Purchase"). While the Company is not privy to the terms of the Share Purchase, the Company has been informed by the parties to the Share Purchase Agreement that completion under the Share Purchase is conditional upon completion of the first tranche convertible notes (the "First Tranche Convertible Notes") under an investment agreement (the "Investment Agreement") which forms part of the transaction agreements in the strategic alliance with Medtronic. As published in the announcement dated 27 January 2014, we are eager to expand upon our strategic alliance with the signing of the second supplemental services agreement which expands both the scope and nature of the consulting services, know-how and expertise that Medtronic will provide Lifetech through our strategic alliance. For further details, please refer to the announcements of the Company dated 27 January 2014.

Given that the completion of the Share Purchase is inter-conditional with the completion of the First Tranche Convertible Notes, Mr. Li Gabriel, being a non-executive director (resigned on 22 January 2013) and a beneficial owner of Orchid Asia as at date of the board meeting for approving, among other matters, the Investment Agreement and the related transactions contemplated thereunder, has abstained from voting in respect of such resolutions of the Board.

Save for the above, the directors have confirmed that so far as they are aware, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

On 14 October 2012, Medtronic entered into the Investment Agreement with the Company, pursuant to which Medtronic has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the First Tranche Convertible Notes in the principal amount of HK$152,000,000 and the Second Tranche Convertible Notes in the principal amount of HK$2,031,428,574, subject to the terms and conditions of the Investment Agreement.

The Company has also entered into the Distribution Agreement (entered into on 14 October 2012 and supplemented on 5 January 2013) and the Services Agreement (entered into on 14 October 2012 and supplemented on 5 January 2013 and 24 January 2014) (both as defined in the circular of the Company dated 6 January 2013) with Medtronic.

Distribution Agreement

The Distribution Agreement, which relates to the appointment of Medtronic as distributor, shall be effective for five years from the First Tranche Completion Date or so long as Medtronic holds at least 15% of the share capital of the Company, whichever is longer. Thereafter, the Distribution Agreement shall, unless terminated pursuant to the terms of the Distribution Agreement or a six-month advance notice of non-renewal is served by either party, be automatically renewed for additional periods of not more than three years each.

Pursuant to the Distribution Agreement, Beijing PerMed Biomedical Engineering Co., Ltd. ("PerMed") appointed Medtronic as the exclusive distributor of PerMed with the exclusive right to advertise, promote, market, distribute and sell products worldwide.

For the year ended 31 December 2013, the transaction amount under the Distribution Agreement was nil, where the relevant annual cap was RMB813,000.

Services Agreement

The Services Agreement involves an aggregate service fee of USD5.0 million (and an additional fee of USD3.0 million pursuant to the second supplemental service agreement dated 24 January 2014, which was approved by independent shareholders in the extraordinary general meeting held on 3 April 2014), with term of two years from the First Tranche Completion Date. Pursuant to the Services Agreement, Medtronic will provide the Company with the services, which comprise, among other things, consultative services with respect to certain internal operations, quality systems and product development processes of the Company.

The Company shall pay to Medtronic, on a quarterly basis, a royalty equal to 4% of the incremental sales revenue achieved by the Group, subject to a cumulative cap of RMB300,000,000 provided, however, that, in the event any person other than Medtronic holds an interest of 50% or more in the Shares in the Company, such cumulative cap shall be increased to RMB600,000,000. The Company' s obligation to pay the royalty shall terminate upon Medtronic holding more than 50% in the issued share capital of the Company on a fully-diluted basis.

The actual payment amount of service fee under the Services Agreement was RMB9,306,250 for the year ended 31 December 2013, which did not exceed the relevant cap of RMB9,450,000 *(note: in accordance with the relevant accounting policies and with reference to the payment schedule stipulated in the Services Agreement, the Group accounted service fee of RMB20,529,000 after the inclusion of the installments payable in 2014).* For the year ended 31 December 2013, the royalty fee under the Services Agreement was approximately RMB1,982,000 and, as at 31 December 2013, the cumulative royalty fee under the Services Agreement was approximately RMB1,982,000, which did not exceed the relevant cumulative cap of RMB300,000,000.

Related party transaction

For 2013, the related party transactions set out in the Note 38 to the consolidated financial statements in this report (other than the above mentioned) are not “connected transactions” or “continuing connected transaction” of the Company. The Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

Annual review

The independent non-executive directors of the Company have reviewed the continuing connected transactions under the Distribution Agreement and the Services Agreement and they confirm that the transactions in 2013 were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the listed issuer than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company, Deloitte Touche Tohmatsu, was engaged to report on the continuing connected transactions under the Distribution Agreement and the Services Agreement disclosed above 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 auditors have confirmed the relevant matters stated in Rule 14A.38 of the Listing Rules and a copy of the relevant confirmation letter has been provided to the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2013, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year ended 31 December 2013 and save as disclosed in the Prospectus, the directors were not aware of any business or interest of the directors or any substantial shareholder (as defined under the Listing Rules and the GEM Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

BANK BORROWINGS

The Group has no bank borrowings of the Group as at 31 December 2013 (2012: Nil).

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules and Rule 5.46 of the GEM Listing Rules – Model Code for Securities Transactions by Directors of Listed Companies. Specific enquiry has been made of all the directors and the directors have confirmed that they had complied with such code of conduct from the date of listing of the Company's shares on the Stock Exchange up to 31 December 2013.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on the part of "Corporate Governance Report" of this annual report.

AUDITOR

The consolidated financial statements in this report have been audited by Deloitte Touche Tohmatsu. There has been no change in the auditor of the Company from the date of Listing of the Shares of the Company on the Stock Exchange up to 31 December 2013. A resolution has been submitted to the annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
XIE Yuehui
Chairman

25 March 2014

Deloitte.
德勤

TO THE MEMBERS OF LIFETECH SCIENTIFIC CORPORATION
先健科技公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of LifeTech Scientific Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 113, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 International Financial Reporting Standards ("IFRSs") 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 and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	7	**231,035**	181,475
Cost of sales		**(42,399)**	(36,175)
Gross profit		**188,636**	145,300
Other income and other gains and losses	8	**(48)**	7,246
Selling and distribution expenses		**(52,123)**	(41,221)
Administration expenses		**(63,221)**	(37,898)
Research and development expenses		**(31,039)**	(23,608)
Operating profit		**42,205**	49,819
Finance income	9	**4,037**	2,352
Finance costs	9	**(10,145)**	—
Finance (costs) income, net	9	**(6,108)**	2,352
Share of results of associates	20	**(11,018)**	(10,488)
Loss on disposal of a subsidiary	33	**(806)**	—
Net exchange gain on other financial asset and convertible notes	21&31	**6,360**	—
Fair value losses on other financial asset and convertible notes	21&31	**(83,826)**	—
(Loss) profit before tax	10	**(53,193)**	41,683
Income tax expense	12	**(12,187)**	(8,821)
(Loss) profit for the year		**(65,380)**	32,862
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation foreign operations		**671**	101
Share of exchange loss of an associate		**(54)**	—
Other comprehensive income for the year		**617**	101
Total comprehensive (expense) income for the year		**(64,763)**	32,963
(Loss) profit for the year attributable to:			
Owners of the Company		**(65,666)**	32,352
Non-controlling interests		**286**	510
		(65,380)	32,862
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(65,049)**	32,453
Non-controlling interests		**286**	510
		(64,763)	32,963
(Loss) earnings per share	14		
– Basic (RMB)		**(0.131)**	0.065
– Diluted (RMB)		**(0.131)**	0.065

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	15	**34,044**	26,830
Investment properties	16	**1,766**	1,839
Intangible assets	17	**31,757**	17,145
Prepaid lease payments	18	**35,800**	—
Deposits for acquisition of property, plant and equipment		**2,340**	1,392
Deferred tax assets	19	**17,350**	6,769
Interests in associates	20	**1,126**	11,190
Other financial asset	21	**—**	—
Deposits for acquisition of long term investment/intangible asset	22	**30,887**	18,853
		155,070	84,018
Current assets			
Inventories	23	**32,559**	24,711
Trade and bill receivables	24	**49,166**	39,474
Other receivables and prepayments	25	**17,942**	13,250
Loan receivable	26	**32,000**	—
Prepaid lease payments	18	**1,271**	—
Structured deposits	27	**6,500**	4,250
Bank balances and cash	28	**225,468**	198,443
		364,906	280,128
Current liabilities			
Trade and other payables	29	**59,428**	36,715
Tax payables		**18,050**	7,774
		77,478	44,489
Net current assets		**287,428**	235,639
Total assets less current liabilities		**442,498**	319,657
Non-current liabilities			
Government grants	30	**18,192**	18,847
Convertible notes	31	**67,058**	—
Conversion option derivative liability	31	**121,201**	—
		206,451	18,847
Net assets		**236,047**	300,810

	NOTE	2013 RMB'000	2012 RMB'000
Capital and reserves			
Share capital	32	**32**	32
Share premium and reserves		**231,486**	296,535
Equity attributable to owners of the Company		**231,518**	296,567
Non-controlling interests		**4,529**	4,243
Total equity		**236,047**	300,810

The consolidated financial statements on pages 45 to 113 were approved and authorised for issue by the board of directors on 25 March 2014 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (Note i)	Capital reserve RMB'000	Contribution reserve RMB'000 (Note ii)	Accumulated profits (losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	32	251,593	691	13,411	(277)	32,531	(33,867)	264,114	3,726	267,840
Profit for the year	—	—	—	—	—	—	32,352	32,352	510	32,862
Other comprehensive income for the year	—	—	101	—	—	—	—	101	—	101
Total comprehensive income for the year	—	—	101	—	—	—	32,352	32,453	510	32,963
Contributions from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	7	7
Appropriations	—	—	—	5,833	—	—	(5,833)	—	—	—
At 31 December 2012	32	251,593	792	19,244	(277)	32,531	(7,348)	296,567	4,243	300,810
At 1 January 2013	32	251,593	792	19,244	(277)	32,531	(7,348)	296,567	4,243	300,810
Loss for the year	—	—	—	—	—	—	(65,666)	(65,666)	286	(65,380)
Other comprehensive income for the year	—	—	617	—	—	—	—	617	—	617
Total comprehensive income for the year	—	—	617	—	—	—	(65,666)	(65,049)	286	(64,763)
Realised on disposal of a subsidiary (Note 33)	—	—	—	(118)	(144)	—	262	—	—	—
Appropriations	—	—	—	9,858	—	—	(9,858)	—	—	—
At 31 December 2013	**32**	**251,593**	**1,409**	**28,984**	**(421)**	**32,531**	**(82,610)**	**231,518**	**4,529**	**236,047**

Notes:

(i) Statutory surplus reserve is non-distributable and the transfer to this reserve is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of the PRC subsidiaries in accordance with the Article of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.

(ii) Contribution reserve represents the difference between the fair value of the consideration paid for the acquisition of Lifetech Scientific (Shenzhen) Co., Ltd. 先健科技(深圳)有限公司 from shareholders and the carrying amount of the share of net assets acquired in August 2006 and it is regarded as a deemed contribution from shareholders under merger accounting.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(53,193)**	41,683
Adjustments for:		
Gain on disposal of property, plant and equipment	**(15)**	—
Depreciation of property, plant and equipment	**5,789**	6,253
Amortisation charge of intangible assets	**1,099**	998
Depreciation of investment properties	**73**	73
Release of prepaid lease payments	**1,059**	—
Allowance for inventories	**2,008**	2,297
Impairment loss recognised on trade and bill receivables, net	**1,474**	1,758
Impairment loss recognised on other receivables	**—**	629
Loss on disposal of a subsidiary	**806**	—
Government grants	**(5,656)**	(5,764)
Finance income	**(4,037)**	(2,352)
Finance costs	**10,145**	—
Share of results of associates	**11,018**	10,488
Net loss on other financial asset and convertible notes	**77,466**	—
Operating cash flows before movements in working capital	**48,036**	56,063
Increase in inventories	**(9,865)**	(5,773)
Increase in trade and bill receivables	**(13,742)**	(4,716)
Increase in other receivables and prepayments	**(5,318)**	(4,244)
Increase in trade and other payables	**21,982**	7,474
Increase in government grants received for operating activities	**6,348**	3,018
Cash generated from operations	**47,441**	51,822
Income taxes paid	**(12,478)**	(9,299)
NET CASH FROM OPERATING ACTIVITIES	**34,963**	42,523

	NOTE	2013 RMB'000	2012 RMB'000
INVESTING ACTIVITIES			
Interest received from bank deposits		**2,040**	497
Interest received from structured deposits		**485**	1,855
Interest received from loan receivable		**1,512**	—
Purchase of other financial asset		**(17,214)**	—
Proceeds from disposal of property, plant and equipment		**259**	23
Deposits paid for and purchase of property, plant and equipment		**(14,273)**	(8,754)
Payments for intangible assets		**(116)**	(1,153)
Purchases of prepaid lease payments		**(38,130)**	—
Deposits paid for acquisition of long term investment/intangible asset		**(12,034)**	(18,853)
Development costs paid		**(15,595)**	(12,450)
Government grants received for acquisition of plant and equipment		**700**	10,610
Loan advanced		**(32,000)**	—
Structured deposits placed		**(45,750)**	(525,820)
Release of structured deposits		**43,500**	546,570
Proceeds from disposal of a subsidiary (net of cash and cash equivalents disposed)	33	**218**	—
Capital contribution to an associate		**—**	(21,678)
NET CASH USED IN INVESTING ACTIVITIES		**(126,398)**	(29,153)
FINANCING ACTIVITIES			
Net proceeds from issue of convertible notes		**118,990**	—
Bank borrowings raised		**35,000**	—
Repayments of bank borrowings		**(35,000)**	—
Interest paid		**(1,128)**	—
Repayments of advance from a shareholder		**—**	(54)
Repayments of advance from directors		**—**	(30)
Contributions from non-controlling interests of subsidiaries		**—**	7
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**117,862**	(77)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**26,427**	13,293
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**198,443**	185,049
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**598**	101
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		**225,468**	198,443

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 17 August 2006 as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "HKSE") until 5 November 2013 when its shares were delisted from the Growth Enterprise Market of HKSE and listed on the Main Board of HKSE by way of transfer of listing. Its ultimate controlling shareholders are Mr. Xie Yuehui, Mr. Wu Jianhui and Medtronic, Inc. ("Medtronic"). A controlling shareholder, Mr. Xie Yuehui, is also the Chairman and Managing Director of the Company. The address of the registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands, and the address of the principal place of business is Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are development, manufacture and trading of advanced interventional medical devices for cardiovascular and peripheral vascular diseases and disorders.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and the Group's major operating subsidiaries.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGE IN PRESENTATION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Application of new and revised IFRSs

The Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year.

Amendments to IFRSs	Annual Improvements to IFRSs 2009 – 2011 Cycle
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statement, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGE IN PRESENTATION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – *continued*

Application of new and revised IFRSs – *continued*

Except as described below, the application of the new and revised to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and nonfinancial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application. Other than the additional disclosures as set out in note 6, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to IAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGE IN PRESENTATION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – *continued*

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9, and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRIC-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

All recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGE IN PRESENTATION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – *continued*

New and revised IFRSs issued but not yet effective – *continued*

IFRS 9 Financial Instruments – *continued*

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other cwomprehensive income would create or enlarge an accounting mismatch in consolidated income statement. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to consolidated income statement. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the consolidated financial statements of the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGE IN PRESENTATION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – *continued*

New and revised IFRSs issued but not yet effective – *continued*

IFRS 9 Financial Instruments – *continued*

Change in presentation of consolidated statement of profit or loss and other comprehensive income

In the current year, the directors of the Company decided to change the presentation of the consolidated profit or loss and other comprehensive income by dividing the income and expense line items into operating and non-operating activities to better reflect the operating results of the Group. Prior year figures have been re-presented to reflect the new presentation. The reclassification has had no net effect on the results of the Group for 2012 and 2013.

No consolidated statement of financial position as at 1 January 2012 has been presented as the re-classifications stated above have no effects on the financial position of the Group presented in the consolidated statement of financial position in respect of the end of the previous financial year.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation – *continued*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investment in associates – *continued*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when goods are delivered and title has passed and when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Foreign currencies – *continued*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using the exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit or loss for the year. Taxable profit differs from "(loss) profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance lease) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its investments in associates, tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – continued

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other income and other gains and losses line item. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, loan receivable and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – continued

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and bill receivables, assets that are assessed not to be impaired individually are, in addition, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a normally allowed credit period of 30-90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by the group entity are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables and amount due to a shareholder are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Convertible notes

Convertible notes issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative together with other embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

The key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Deposits for acquisition of long term investment/intangible asset

The directors of the Company have reviewed the Group's deposits for acquisition of long term investment/intangible asset in the light of its capital investments, intention for strategic alliance partnership and liquidity requirements and have confirmed the Group's positive intention and ability to invest in long term projects.

The Group determines whether or not the deposits paid for long term investment/intangible asset for strategic alliance partnership to collaborate across incubation projects is impaired. Deposits paid to an independent third party are based on the agreed terms as stipulated in the relevant agreements. Impairment losses are recognised for the deposits where events or changes in circumstances indicate that the acquisition may not be completed or materialised by end of the agreements. The management has delegated a team responsible for monitoring progress of the acquisition to ensure proper investment projects are engaged and relevant due diligence works have been conducted in making sure the deposits will be materialised before expiry of the agreements. Whenever the recoverable amounts from the investment/intangible asset to be acquired is less than the carrying amounts of the deposits paid, impairment losses are recognised.

The carrying amounts of deposits for acquisition of long term investment/intangible asset at 31 December 2013 are approximately RMB30,887,000 (2012: RMB18,853,000) Further details are set out in note 22.

Useful lives of internal-generated intangible assets

As at 31 December 2013, the carrying amount of the Group's internal-generated intangible assets with definite useful lives is approximately RMB28,045,000 (2012: RMB12,450,000). The estimated useful lives of the assets reflect the directors' estimate of the periods over which the internal-generated intangible assets are expected to generate net cash flows for the Group based on certain assumptions of prevailing market conditions. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortisation expenses and impairment losses in future years. Details of the intangible assets are set out in note 17.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY – *continued*

Estimated impairment loss of trade and bill receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2013, the carrying amount of trade and bill receivables of the Group, net of allowance for the doubtful debts, is approximately RMB49,166,000 (2012: RMB39,474,000).

Estimated useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives, the residual value, and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

As at 31 December 2013, the carrying amount of property, plant and equipment is approximately RMB34,044,000 (2012: RMB26,830,000).

Estimated impairment of inventories

The management of the Group reviews an ageing analysis at the end of reporting period, and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out the inventories review on a product by product basis at the end of reporting period and make allowance for obsolete items.

As at 31 December 2013, the carrying amount of inventories of the Group is approximately RMB32,559,000 (2012: RMB24,711,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes convertible notes issued by the Company disclosed in note 31, net of cash and cash equivalents, and equity, comprising issued share capital and various reserves.

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure mainly through new share issues, as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**310,975**	241,566
Designated at FVTPL - structured deposits	**6,500**	4,250
Financial liabilities		
Amortised cost	**109,528**	25,876
Conversion option derivative liability	**121,201**	—

6. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bill receivables, other receivables, loan receivable, structured deposits, bank balances and cash, trade and other payables, amount due to a shareholder and convertible notes (including both liability and derivative components). Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Certain bank balances, trade receivables, other receivables, trade and other payables, convertible notes (including both liability and derivative components) and amount due to a shareholder of the Company are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	2013 RMB'000	2012 RMB'000
Assets		
United States Dollars ("USD")	**32,348**	23,146
Euro ("EUR")	**16,463**	723
Hong Kong Dollars ("HK$")	**6,216**	10,600
India Rupees ("INR")	**8,604**	7,629
Liabilities		
USD	**12,711**	1,006
EUR	**520**	49
HK$	**188,258**	—
INR	**370**	219

6. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies – *continued*

Market risk – continued

Currency risk – *continued*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates.

A positive (negative) number below indicates a decrease (an increase) in loss for the year ended 31 December 2013 or an increase (a decrease) in profit for the year ended 31 December 2012 where RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the (loss) profit for the year.

	2013	2012
	RMB'000	RMB'000
USD		
Profit or loss	**(736)**	(830)
EUR		
Profit or loss	**(598)**	(25)
HK$		
Profit or loss	**6,827**	(398)
INR		
Profit or loss	**(309)**	(278)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies – *continued*

Market risk – continued

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances, structured deposits and loan receivable. For structured deposits, interest varies depending on the movements of the RMB Benchmark Loan Rates issued by the People's Bank of China. As the bank balances interest rates and RMB Benchmark Loan Rates had limited fluctuations over the year, the management of the Group is of the opinion that the Group's exposure to cash flow interest rate risk is minimal due to short maturity of these financial instruments. Accordingly, no sensitivity analysis is presented for bank balances, structured deposits and loan receivable.

The Group's fair value interest rate risk relates primarily to its corresponding fixed-rate loan receivable (see note 26) and convertible notes (see note 31). The management will consider hedging significant interest rate exposure should the needs arise.

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

Although the bank balances and structured deposits are concentrated on certain counterparties, the credit risk on liquid funds and structured deposits are limited because the counterparties are either state-owned banks in the PRC or banks with high credit ratings and quality.

6. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies – *continued*

Credit risk – continued

The Group has concentration of credit risk as 31% (2012: 35%) of the total trade and bill receivables was due from the Group's five largest customers within the congenital heart diseases and peripheral vascular diseases business segments. The five largest customers are in good reputation without default history. The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 61% (2012: 64%) of the total debtors as at 31 December 2013.

As set out in note 26, the Group made a loan advance to an independent third party through a Lending Agent (as defined in note 26), which are shown as loan receivable in the consolidated statement of financial position, amounting to RMB32,000,000 as at 31 December 2013 (2012: nil). This loan exposes the Group to the concentration of credit risk as 100% of the loan was granted to one counterparty only. The Lending Agent continuously assesses the recoverability of the debtor and the directors consider that the Group's exposure to credit risk is significantly reduced.

Other than the concentration of the credit risk on trade and bill receivables, loan receivable and bank balances, the Group do not have any other significant concentration of credit risk.

Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for convertible notes are based on the agreed repayment date.

The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is driven from interest rate at the end of reporting period.

6. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies – *continued*

Liquidity risk – continued

Liquidity and interest risk tables

	Interest rate %	Repayable on demand RMB'000	Less than 3 months RMB'000	3 months to 1year RMB'000	1-5 years RMB'000	Undiscounted cash flows RMB'000	Total Carrying amount RMB'000
At 31 December 2013							
Non-derivative financial liabilities							
Trade and other payables	—	1,687	27,644	13,139	—	42,470	42,470
Convertible notes	16.64%	—	—	—	125,598	125,598	67,058
		1,687	27,644	13,139	125,598	168,068	109,528
Derivatives financial liability							
Conversion option derivative liability	—	121,201	—	—	—	121,201	121,201
At 31 December 2012							
Trade and other payables	—	2,620	22,570	686	—	25,876	25,876

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

6. FINANCIAL INSTRUMENTS – *continued*

(c) Fair value measurements of financial instruments – *continued*

Financial assets/ financial liability	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2013 RMB'000	31 December 2012 RMB'000				
Financial assets						
Structured deposits (classified as financial asset in the statement of financial position)	**6,500**	4,250	Level 2	Discounted cash flow. Market price of underlying financial instruments, including listed shares and debentures.	N/A	N/A
Private equity convertible notes (classified as FVTPL in the statement of financial position)	**–**	N/A	Level 3 (Note i)	Liquidation value basis. Liquidation value is the net amount that would be realised if the business is terminated and the assets are sold. The key inputs are the residual amounts of the issuer.	N/A	N/A
Financial liability						
Conversion option derivative liability (classified as financial liability in the statement of financial position)	**121,201**	N/A	Level 3 (Note i)	The Binomial Option Pricing Model. The key inputs are risk free rate for the yields to maturity of respective Hong Kong Exchange Fund Note and volatility of the share price from the comparable companies.	Volatility (Note ii)	The higher the volatility, the higher the fair value.

Notes:

(i) Details of reconciliation of level 3 fair value measurement of private equity convertible notes and conversion option of derivative liability are set out in notes 21 and 31, respectively. There were no transfers between the different levels of the fair value hierarchy for the year.

(ii) If the volatility to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the conversion option derivative liability would increase/decrease by RMB5,690,000 and RMB3,332,000 respectively.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments or any reclassification of financial instruments in the year.

7. SEGMENT INFORMATION

The segment information reported internally was analysed on the basis of their products supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by executive directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating segments under IFRS 8 are as follows:

- Congenital heart diseases business: trade, manufacture, research and development of devices related to congenital and structural heart diseases.
- Peripheral vascular diseases business: trade, manufacture, research and development of devices related to peripheral vascular diseases.
- Surgical vascular repair business: trade, manufacture, research and development of devices related to surgical vascular repair.

Information regarding the above segments is reported below.

7. SEGMENT INFORMATION – *continued*

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31 December 2013

	Congenital heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Surgical vascular repair business RMB'000	Total RMB'000
SEGMENT REVENUE				
External sales	120,600	110,215	220	231,035
Segment profit (loss)	96,065	92,800	(229)	188,636
Unallocated income				
- Finance income				4,037
- Net exchange gain on other financial asset and convertible notes				6,360
Unallocated expense				
- Other income and other gains and losses				(48)
- Selling and distribution expenses				(52,123)
- Administration expenses				(63,221)
- Research and development expenses				(31,039)
- Finance costs				(10,145)
- Loss on disposal of a subsidiary				(806)
- Share of loss of associates				(11,018)
- Fair value losses on other financial asset and convertible notes				(83,826)
Loss before tax				(53,193)

7. SEGMENT INFORMATION – *continued*

(a) Segment revenue and results – *continued*

For the year ended 31 December 2012

	Congenital heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Surgical vascular repair business RMB'000	Total RMB'000
SEGMENT REVENUE				
External sales	103,818	77,177	480	181,475
Segment profit	79,503	65,751	46	145,300
Unallocated income				
- Other income and other gains and losses				7,246
- Finance income				2,352
Unallocated expense				
- Selling and distribution expenses				(41,221)
- Administration expenses				(37,898)
- Research and development expenses				(23,608)
- Share of loss of an associate				(10,488)
Profit before tax				41,683

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the gross profit (loss) earned (incurred) by each segment without allocation of all other items of income and expenses, as set out above. This is the measure reported to the chief operating decision maker, the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance.

7. SEGMENT INFORMATION – *continued*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

Segment assets

	2013 RMB'000	2012 RMB'000
Operating segments:		
Congenital heart diseases business	**102,557**	65,935
Peripheral vascular diseases business	**94,625**	52,360
Surgical vascular repair business	**4,816**	4,127
Total segment assets	**201,998**	122,422
Unallocated assets		
Property, plant and equipment	**544**	—
Investment properties	**1,766**	1,839
Deferred tax assets	**17,350**	6,769
Interests in associates	**1,126**	11,190
Deposits for acquisition of long term investment/ intangible asset	**30,887**	18,853
Other receivables and prepayments	**2,337**	380
Loan receivable	**32,000**	—
Structured deposits	**6,500**	4,250
Bank balances and cash	**225,468**	198,443
Consolidated assets	**519,976**	364,146

7. SEGMENT INFORMATION – *continued*

(b) Segment assets and liabilities – *continued*

Segment liabilities

	2013 RMB'000	2012 RMB'000
Operating segments:		
Congenital heart diseases business	**1,778**	1,337
Peripheral vascular diseases business	**1,922**	1,163
Surgical vascular repair business	**133**	66
Total segment liabilities	**3,833**	2,566
Unallocated liabilities		
Trade and other payables	**45,001**	25,602
Tax payables	**18,050**	7,774
Government grants	**28,786**	27,394
Convertible notes	**67,058**	—
Conversion option derivative liability	**121,201**	—
Consolidated liabilities	**283,929**	63,336

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, structured deposits, deferred tax assets, investment properties, certain other receivables and prepayments, loan receivable, contain property, plant and equipment, interests in associates and deposits for acquisition of long term investment/intangible asset, and
- only trade payables are allocated to operating segments in arriving at segment liabilities, which therefore exclude government grants (include current portion under other payables and non-current portion), tax payables, certain trade and other payables, convertible notes and conversion option derivative liability.

7. SEGMENT INFORMATION – *continued*

(c) Other segment information

For the year ended 31 December 2013

	Congenital heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Surgical vascular repair business RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or segment assets:					
Capital expenditure (Note)	35,268	32,230	64	552	68,114
Depreciation of property, plant and equipment	3,018	2,758	5	8	5,789
Amortisation charge of intangible assets	574	524	1	—	1,099
Allowance of inventories	1,048	958	2	—	2,008

For the year ended 31 December 2012

	Congenital heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Surgical vascular repair business RMB'000	Total RMB'000
Amounts included in the measure of segment profit or segment assets:				
Capital expenditure (Note)	12,790	9,508	59	22,357
Depreciation of property, plant and equipment	3,577	2,659	17	6,253
Amortisation charge of intangible assets	571	424	3	998
Allowance of inventories	1,314	977	6	2,297

Note: Capital expenditure includes additions to property, plant and equipment, intangible assets, prepaid lease payments and deposits for property, plant and equipment.

7. SEGMENT INFORMATION – *continued*

(d) Geographical information

The Group's operations are located in the PRC and India.

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets is presented based on geographical locations of the assets.

	Revenue from external customers		Non-current assets	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (country of domicile)	**163,422**	130,255	**104,962**	43,909
India	**18,756**	18,071	**194**	244
Europe	**18,105**	10,942	**—**	—
Asia, excluding PRC and India	**16,634**	12,932	**—**	—
South America	**10,936**	7,336	**—**	—
Africa	**1,214**	443	**—**	—
Others	**1,968**	1,496	**551**	3,053
Total	**231,035**	181,475	**105,707**	47,206

Note: Non-current assets excluded deferred tax assets, interests in associates and deposits for acquisition of long term investment/ intangible asset.

(e) Information about major customers

No external customers of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2013 and 2012.

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	2013 RMB'000	2012 RMB'000
Government grants (note 30)	**5,656**	5,764
Rental income	**1,203**	1,218
Gain on disposal of property, plant and equipment	**15**	—
Net foreign exchange loss	**(6,456)**	(356)
Others	**(466)**	620
	(48)	7,246

9. FINANCE INCOME AND COSTS

	2013 RMB'000	2012 RMB'000
Finance income from:		
Interest income on bank deposits	**2,040**	497
Interest income on structured deposits	**485**	1,855
Interest income on loan receivable	**1,512**	—
Finance income	**4,037**	2,352
Interest expense on:		
Interest expense on bank borrowings	**(1,128)**	—
Effective interest expense on convertible notes (note 31)	**(9,017)**	—
Financial costs	**(10,145)**	—
Financial (costs) income, net	**(6,108)**	2,352

10. (LOSS) PROFIT BEFORE TAX

	2013 RMB'000	2012 RMB'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration (note 11)		
Directors' fee	**180**	180
Salaries, wages and other benefits	**51,685**	47,088
Performance related bonus	**5,401**	5,747
Retirement benefits scheme contributions	**3,982**	2,914
Less: capitalised in development costs	**(6,736)**	(6,057)
	54,512	49,872
Auditor's remuneration	**1,980**	1,692
Impairment loss on trade and bill receivables, net	**1,474**	1,758
Impairment loss on other receivables	**—**	629
Cost of inventories recognised as expenses (Note)	**42,399**	36,175
Depreciation of property, plant and equipment	**5,789**	6,253
Depreciation of investment properties	**73**	73
Amortisation charge of intangible assets	**1,099**	998
Release of prepaid lease payments	**1,059**	—
Gross rental income from investment properties	**(1,203)**	(1,218)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**73**	73
	(1,130)	(1,145)

Note: For the year ended 31 December 2013, cost of inventories included allowance for inventories of RMB2,008,000 (2012: RMB2,297,000).

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2012: 9) directors and the chief executive were as follows:

For the year ended 31 December 2013

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Incentive performance bonus RMB'000	Total RMB'000
Executive Directors:					
Mr. Xie Yuehui	—	480	36	40	556
Mr. Zhao Yiwei (Note(i))	—	682	—	—	682
Non-Executive Directors:					
Ms. Cong Ning (Note(ii))	—	—	—	—	—
Mr. Li Gabriel (Note(ii))	—	—	—	—	—
Mr. Wu Jianhui	—	—	—	—	—
Mr. Liang Xianzhi	60	—	—	—	60
Mr. Zhang Xingdong	60	—	—	—	60
Mr. Zhou Gengshen	60	—	—	—	60
Mr. Martha Geoffrey Straub (Note(iii))	—	—	—	—	—
Mr. Liddicoat John Randall (Note(iii))	—	—	—	—	—
	180	1,162	36	40	1,418

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – *continued*

For the year ended 31 December 2012

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Incentive performance bonus RMB'000	Total RMB'000
Executive Directors:					
Mr. Xie Yuehui	—	482	31	40	553
Mr. Zhao Yiwei (Note(i))	—	684	—	1,200	1,884
Non-Executive Directors:					
Ms. Cong Ning	—	—	—	—	—
Mr. Li Gabriel	—	—	—	—	—
Mr. Wu Jianhui	—	—	—	—	—
Mr. Zeng Min (Note(iv))	—	—	—	—	—
Mr. Liang Xianzhi	60	—	—	—	60
Mr. Zhang Xingdong	60	—	—	—	60
Mr. Zhou Gengshen	60	—	—	—	60
	180	1,166	31	1,240	2,617

Notes:

(i) Mr. Zhao Yiwei is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(ii) Ms. Cong Ning and Mr. Li Gabriel resigned as non-executive directors on 22 January 2013.

(iii) Mr. Martha Geoffrey Straub and Mr. Liddicoat John Randall appointed as non-executive directors on 30 January 2013.

(iv) Mr. Zeng Min resigned as non-executive director on 27 August 2012.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – *continued*

Of the five individuals with the highest emoluments in the Group, nil (2012: one) director and the chief executive of the Company whose emolument is included above. The emoluments of the five (2012: four) individuals were as follows:

	2013	2012
	RMB'000	RMB'000
Employees		
- salaries and other benefits	**4,229**	3,817
- performance related bonus	**627**	710
- contributions to retirement benefits scheme	**129**	61
	4,985	4,588

Their emoluments were within the following bands:

	2013	2012
	Number of employees	Number of employees
HK$1,000,001 to HK$1,500,000	**4**	2
HK$1,500,001 to HK$2,000,000	**1**	2
	5	4

For each of the two years ended 31 December 2013, no emoluments were paid by the Group to any of the directors and the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors nor the chief executive waived any emoluments for any of the two years ended 31 December 2013.

12. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current tax charge (credit):		
PRC Enterprise Income Tax ("PRC EIT")	**22,770**	12,389
Overprovision in prior years	**(2)**	(386)
Deferred tax credit (note 19):		
Current year	**(10,581)**	(3,182)
	12,187	8,821

The Company is tax exempted under the laws of the Cayman Islands. New Centre International Limited 新城市國際有限公司 ("New Centre"), a subsidiary of the Company, is subject to Hong Kong Profits Tax rate of 16.5% on assessable profits earned in Hong Kong. No provision for Hong Kong Profits Tax has been made for any of the two years ended 31 December 2013 and 2012 as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except that two major operating subsidiaries in the PRC were qualified as High and New Technology Enterprises since 2009, and are entitled to a preferential income tax rate of 15%. The qualification of High and New Technology Enterprises is subject to review once every two years and the two major operating subsidiaries continued to be recognised as a hi-tech enterprise for the years ended 31 December 2013 and 2012.

The applicable income tax rate of Lifetech Scientific India Private Ltd. ("Lifetech India") is 30.9% on its taxable profits.

The income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit and loss and other comprehensive income as follows:

	2013 RMB'000	2012 RMB'000
(Loss) profit before tax	**(53,193)**	41,683
Tax at the applicable tax rate of 25% (2012: 25%) (Note)	**(13,298)**	10,421
Tax effect of share of loss of associates	**2,755**	2,622
Tax effect of expenses not deductible for tax purpose	**33,570**	4,036
Tax effect of tax losses not recognised	**1,923**	1,035
Tax effect of additional deductible research and development expenditure	**(1,136)**	(1,572)
Overprovision in prior years	**(2)**	(386)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**—**	152
Effect of income under tax concessions	**(11,625)**	(7,487)
Income tax expense for the year	**12,187**	8,821

Note: The tax rate of 25% represents the prevail income tax rate of the subsidiary in PRC which constitute the substantial part of the Group's operations for the years ended 31 December 2013 and 2012.

13. DIVIDENDS

No final dividend was paid or proposed during the years ended 31 December 2013 and 2012, nor has any dividend proposed since the end of the reporting period.

14. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2013	2012
	RMB'000	RMB'000
(Loss) earnings:		
(Loss) earnings for the purpose of basic earnings per share	**(65,666)**	32,352
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**500,000**	500,000

The computation of diluted loss per share for the year ended 31 December 2013 does not assume the conversion of convertible notes because the conversion of convertible notes would result in decrease in loss per share.

Diluted earnings per share for the year ended 31 December 2012 is not presented as no dilutive potential shares were outstanding during the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Plant and machinery RMB'000	Leasehold improvement RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1 January 2012	341	22,128	7,809	3,551	1,878	35,707
Additions	116	9,703	960	1,911	2,070	14,760
Transfer	(207)	207	—	—	—	—
Disposals	—	(1,884)	—	(113)	(119)	(2,116)
At 31 December 2012	250	30,154	8,769	5,349	3,829	48,351
Exchange realignment	—	(27)	—	(77)	—	(104)
Additions	4,241	4,158	1,560	2,312	1,054	13,325
Transfer	(241)	241	—	—	—	—
Disposals	—	—	(1,205)	(61)	(58)	(1,324)
Disposal of a subsidiary	—	—	(188)	(9)	—	(197)
At 31 December 2013	**4,250**	**34,526**	**8,936**	**7,514**	**4,825**	**60,051**
ACCUMULATED DEPRECIATION						
At 1 January 2012	—	10,764	3,656	2,047	894	17,361
Provided for the year	—	3,227	2,046	660	320	6,253
Eliminated on disposals	—	(1,861)	—	(113)	(119)	(2,093)
At 31 December 2012	—	12,130	5,702	2,594	1,095	21,521
Exchange realignment	—	(8)	—	(23)	—	(31)
Provided for the year	—	2,803	1,574	973	439	5,789
Eliminated on disposals	—	—	(977)	(45)	(58)	(1,080)
Disposal of a subsidiary	—	—	(188)	(4)	—	(192)
At 31 December 2013	**—**	**14,925**	**6,111**	**3,495**	**1,476**	**26,007**
CARRYING VALUES						
At 31 December 2013	**4,250**	**19,601**	**2,825**	**4,019**	**3,349**	**34,044**
At 31 December 2012	250	18,024	3,067	2,755	2,734	26,830

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, after taking into account of their residual values, at the following rates per annum:

Plant and machinery	5 - 10%
Leasehold improvement	20% - 33.3%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2012, 31 December 2012 and 2013	2,601
DEPRECIATION	
At 1 January 2012	689
Provided for the year	73
At 31 December 2012	762
Provided for the year	73
At 31 December 2013	835
CARRYING VALUES	
At 31 December 2013	1,766
At 31 December 2012	1,839

The estimated fair value of the Group's investment properties at 31 December 2013 was RMB29,162,000 (2012: RMB16,879,000). The estimated fair value has been arrived at based on management assessment by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use and the fair value measurements for all of the Group's properties are categorised as Level 2 (see note 3 for details). There has been no change from the valuation technique used in the prior year.

The above investment properties including land and buildings are depreciated on a straight-line basis over 38 years.

The properties shown above are situated on land in the PRC which is held by the Group under medium-term leases.

17. INTANGIBLE ASSETS

	Patent	Licences	Computer software	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2012	4,420	5,631	188	—	10,239
Additions	—	—	1,153	12,450	13,603
At 31 December 2012	4,420	5,631	1,341	12,450	23,842
Additions	—	—	116	15,595	15,711
At 31 December 2013	4,420	5,631	1,457	28,045	39,553
ACCUMULATED AMORTISATION					
At 1 January 2012	1,936	3,731	32	—	5,699
Provided for the year	553	304	141	—	998
At 31 December 2012	2,489	4,035	173	—	6,697
Provided for the year	553	303	243	—	1,099
At 31 December 2013	3,042	4,338	416	—	7,796
CARRYING VALUES					
At 31 December 2013	1,378	1,293	1,041	28,045	31,757
At 31 December 2012	1,931	1,596	1,168	12,450	17,145

The intangible assets are amortised on a straight-line basis over the estimated useful lives:

Patent	8 years
Licences	8 - 10 years
Computer software	5 years
Development costs	5 - 10 years

All of the Group's computer software was acquired from third parties. The above patent and licences were purchased as part of a business combination in prior years.

Development costs are internally generated. The development costs represent design, development, production, sale and distributions of certain congenital heart diseases and peripheral vascular diseases products. The estimated useful lives of these projects are determined based on expected period of time to generate probable future economic benefits for the Group from the projects.

18. PREPAID LEASE PAYMENTS

	2013	2012
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current asset	**1,271**	—
Non-current asset	**35,800**	—
	37,071	—

The Group's prepaid lease payments represent payment for land use rights in the PRC which are held under medium-term leases.

19. DEFERRED TAXATION ASSETS

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Government grant	**Impairment loss on trade receivables**	**Impairment loss on inventories**	**Unrealised profit on inventories**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	2,753	—	834	—	3,587
Credit (charge) to profit or loss	1,239	260	(487)	2,170	3,182
At 31 December 2012 and 1 January 2013	3,992	260	347	2,170	6,769
Credit to profit or loss	208	221	4	10,148	10,581
At 31 December 2013	**4,200**	**481**	**351**	**12,318**	**17,350**

The Group has unused tax losses of approximately RMB21,479,000 (2012: RMB13,788,000), which available for offset against future profits. No deferred tax asset has been recognised for such losses due to the unpredictability of future profit streams. Such losses can be carried forward for 5 years from the year of origination.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB224,780,000 (2012: RMB135,388,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

20. INTERESTS IN ASSOCIATES

	2013	2012
	RMB'000	RMB'000
Cost of investments, unlisted	**22,686**	21,678
Share of post-acquisition reserves	**(21,560)**	(10,488)
	1,126	11,190

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of entity	**Proportion of Ownership interest and voting rightes held by the Group**		**Place of establishment/ operation**	**Share capital**	**Principal activity**
	2013	2012			
Broncus Holding Corporation ("Broncus")	**40%**	40%	Cayman Islands/ United States of America	USD1,000	Investment holding and developing and commercialising solutions for diagnosing and treating lung diseases
Shenzhen EnKe Medical Technology Co., Ltd. ("Enke Medical") 深圳市恩科醫療科技有限公司 (note 33)	**49%**	—	The PRC	RMB1,000,000	Trading of medical devices

20. INTERESTS IN ASSOCIATES – *continued*

The financial information of the Group's associates is prepared using uniform accounting policies in conformity with the accounting policies adopted by the Group. The summarised financial information in respect of the Group's material associate, prepared in accordance with IFRSs is set out below:

Broncus

	2013	2012
	RMB'000	RMB'000
Current assets	**4,001**	4,424
Non-current assets	**48,811**	56,383
Current liabilities	**(7,564)**	(7,762)
Non-current liabilities	**(67,130)**	(25,070)

	2013	2012
	RMB'000	RMB'000
Revenue	**4,243**	2,667
Loss and total comprehensive expense for the year	**(50,377)**	(26,219)

20. INTERESTS IN ASSOCIATES – *continued*

Broncus – *continued*

The unrecognised share of loss of Broncus is as follow:

	2013 RMB'000	2012 RMB'000
The unrecognised share of loss for the year	**(8,961)**	—
Cumulative unrecognised share of loss	**(8,961)**	—

Information of an associate that is not individually material as below:

Enke Medical

	2013 RMB'000
The Group's share of profit of EnKe Medical	**118**
Carrying amount of the Group's interest in EnKe Medical	**1,126**

21. OTHER FINANCIAL ASSET

On 16 September 2013, the Company entered into the secured convertible note purchase agreement (the "Purchase Agreement") with Broncus Medical Inc. ("Broncus Medical"), a wholly-owned subsidiary of Broncus, for the purchase of convertible notes of Broncus Medical in the principal amount of US$2,800,000 (equivalent to RMB17,214,000).

The financial asset of private equity convertible notes purchased above was designated at FVTPL at a purchase price which was higher than the fair value at inception at that date using a valuation technique (see note 6(c)) and resulted in a loss on fair value of RMB13,443,000 on initial recognition of the private equity convertible notes.

The fair values were determined by the directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group.

21. OTHER FINANCIAL ASSET – *continued*

The movement of the financial assets designated as at FVTPL for the year is set out as below:

	RMB'000
At initial recognition	3,771
Exchange realignment	(143)
Fair value loss	(3,628)
At 31 December 2013	—

22. DEPOSITS FOR ACQUISITION OF LONG TERM INVESTMENT/INANGIBLE ASSET

The Group entered into a strategic partnership agreement with an independent third party, which manages and operates an investment fund, on 12 April 2012, to enter into a long-term strategic alliance and equal partnership to collaborate across incubation projects over the period up to 12 April 2014. Deposit for acquisition of long term investment represents the consideration paid by the Group for the acquisition of options, on a priority basis, to invest or co-invest in any and/or all incubation projects and to acquire distribution rights, manufacturing rights and intellectual property licenses with respect to the incubation projects. The Group has the right to join and be a member of the investment committee of the investment fund. Further, the Group has the rights to request for all or a portion of the deposit to be converted to one or more incubation projects investments. The deposit is non-refundable. As at 31 December 2013, none (2012: nil) of the deposit monies have been used by the investment fund on any incubation projects yet.

As at 31 December 2013, the deposits also include a deposit for acquisition of intangible asset of RMB12,600,000. On 28 March 2013, the Group advanced RMB12,600,000 to the same independent third party in order obtain the priority for acquiring the exclusive distribution right to sell the designated products in the event of the successful of application of licenses of the designated products within a predetermined period as defined in the agreement. The deposit is refundable subject to the occurrence of specific events as defined in the agreement signed between the Company and the independent third party.

23. INVENTORIES

	2013	2012
	RMB'000	RMB'000
Raw materials	**16,536**	10,475
Work in progress	**4,583**	4,033
Finished goods	**11,440**	10,203
	32,559	24,711

24. TRADE AND BILL RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**52,381**	40,758
Less: allowance for doubtful debts	**(3,215)**	(1,741)
	49,166	39,017
Bill receivables	**—**	457
	49,166	39,474

Trade and bill receivables are mainly arisen from sales of medical devices. No interest is charged on the trade and bill receivables.

The Group normally allows a credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade and bill receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2013 RMB'000	2012 RMB'000
1 to 90 days	**41,569**	31,265
91 to 180 days	**5,667**	5,109
181 to 365 days	**1,421**	552
Over 365 days	**509**	2,548
	49,166	39,474

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

Included in the Group's trade and bill receivables balance are debtors with aggregate carrying amount of approximately RMB11,572,000 (2012: RMB11,421,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The management of the Group reviews the ageing analysis at the end of reporting period and satisfied with the continuous subsequent settlement on the trade receivable balance, as a result, the impairment of trade receivable is estimated to be insignificant.

24. TRADE AND BILL RECEIVABLES – *continued*

Ageing of past due but not impaired trade and bill receivables

	2013 RMB'000	2012 RMB'000
Age:		
Within 90 days	**6,985**	5,949
91 - 180 days	**2,911**	2,622
181 - 365 days	**1,367**	302
Over 365 days	**309**	2,548
	11,572	11,421

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
At 1 January	**1,741**	12
Impairment losses recognised on receivables	**1,484**	1,760
Amounts written off as uncollectible	**—**	(29)
Impairment losses reversed	**(10)**	(2)
At 31 December	**3,215**	1,741

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB3,215,000 (2012: RMB1,741,000) of which the debtors were in financial difficulties.

25. OTHER RECEIVABLES AND PREPAYMENTS

	2013 RMB'000	2012 RMB'000
Other debtors (Note)	**4,970**	4,278
Less: allowance for doubtful debts	**(629)**	(629)
	4,341	3,649
Prepayments	**5,162**	2,752
Other tax recoverable	**561**	108
Advance to employees	**6,214**	5,272
Rental deposits	**1,309**	1,382
Other deposits	**355**	87
	17,942	13,250

Note: Amount is unsecured, interest-free and repayable on demand. In the opinion of the directors, the Group will demand for repayments within one year from the end of reporting period and the amounts are therefore considered as current.

26. LOAN RECEIVABLE

On 28 April 2013, the Group and Shanghai Pudong Development Bank Shenzhen Branch (the "Lending Agent") entered into an Entrusted Loan Agency Agreement, pursuant to which the Lending Agent agreed to act as the lending agent under the Entrusted Loan Agreement in return for an agency fee of 0.03% of the loan amount, subject to and upon the terms and conditions therein. On the same date, the Group entered into the Entrusted Loan Agreement with an independent third party (the "Borrower") and the Lending Agent, pursuant to which the Group agreed to entrust the amount of RMB32,000,000 to the Lending Agent, for on-lending to the Borrower for a term of one year subject to the terms and conditions under the Entrusted Loan Agency Agreement. The loan receivable bears interests at 7% per annum, unsecured and is repayable on 28 April 2014. The Lending Agent has assessed the counterparty's credit quality and the recoverability of this loan receivable. In the opinion of the directors of the Company, the Lending Agent is satisfied with the credit risks assessment on the Borrower and the lending arrangement is suitable for the risk acceptance level of the Group on the basis of the standard review procedures carried out by, and the judgment of, the Lending Agent. In the opinion of the Directors, the Borrower is of good credit quality based on Lending Agent's regular assessment of such loan and the absence of any default record in the past.

27. STRUCTURED DEPOSITS

As at 31 December 2013, the structured deposits consist of financial products of RMB6,500,000 (2012: RMB4,250,000) issued by banks in the PRC, with an expected but not guaranteed return of 4.9% per annum (2012: 3.8% per annum), depending on the market price of underlying financial instruments, including listed shares and debentures, payable daily. The Group has the right to redeem the structured deposits at any time with one day notice. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivative. The directors consider the fair values of the structured deposits, which are based on the prices provided by the counterparty banks which represented the prices they would pay to redeem the deposits at the end of reporting period, approximate to their carrying values at the same day. The fair value of the embedded derivatives is insignificant.

The structured deposits have been fully redeemed in January 2014 at the principal amount together with returns which approximated the expected return.

28. BANK BALANCES AND CASH

The Group's bank balances carry interest at market rates which range from 0.01% to 0.385% (2012: 0.01% to 0.385%) per annum.

29. TRADE AND OTHER PAYABLES

	2013 RMB'000	2012 RMB'000
Trade payables	**15,997**	2,566
Other payables:		
Government grants (note 30)	**10,594**	8,547
Accrued payroll and bonus	**13,212**	11,668
Other payables	**1,687**	2,620
Accrued expenses	**10,104**	6,214
Value-added tax payables	**3,588**	1,555
Receipt in advance from customers	**1,235**	1,501
Other tax payables	**1,541**	737
Accrued audit fee	**1,470**	1,307
	43,431	34,149
	59,428	36,715

Included in trade payables is trade balances with a shareholder of RMB12,164,000 (2012: nil). Details of the relevant transactions are set out in note 38(a).

The credit period granted by suppliers to the Group ranged from 30 to 120 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2013 RMB'000	2012 RMB'000
0 - 30 days	**13,975**	1,440
31 - 60 days	**1,047**	440
61 - 90 days	**158**	121
91 - 120 days	**69**	57
Over 120 days	**748**	508
	15,997	2,566

30. GOVERNMENT GRANTS

Government grants include subsidies in relation to the acquisition of plant and equipment and the research and development of medical devices. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. During the year ended 31 December 2013, approximately RMB6,348,000 (2012: RMB3,018,000) and RMB700,000 (2012: RMB10,610,000) subsidies relating to research and development of medical devices and the acquisition of plant and equipment, respectively, have been received. The Group recognised income of approximately RMB5,656,000 (2012: RMB5,764,000) during the year ended 31 December 2013.

The current portion of government grants, which include subsidies in relation to research and development of medical devices that have not yet been recognised in profit or loss, are included in other payables (note 29). The non-current portion of government grants, which include subsidies in relation to the acquisition of plant and equipment that have not yet been recognised in profit or loss, are included in non-current liability.

31. CONVERTIBLE NOTES

On 30 January 2013, the Company issued HK$152,000,000 unsecured 1% convertible notes due 2018 ("Convertible Notes"). The Convertible Notes bear interest at 1% per annum and will mature on 29 January 2018 ("Maturity Date"). The holder of the Convertible Notes has the right to convert the principal amount of Convertible Notes into shares of the Company at an initial conversion price of HK$3.8 per share. The Company may not redeem the Convertible Notes at its option prior to the Maturity Date. The noteholder will have the right at noteholder's option, to require the Company to redeem all, or only some, of the Convertible Notes prior to the Maturity Date at a price equal to their principal amount and interest accrued to the date fixed for redemption subject to the occurrence of specific events as defined in the terms and conditions of the convertible notes agreement.

The Convertible Notes contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 16.64% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss. On initial recognition, the total fair value of Convertible Notes is RMB208,351,000, which is higher than the principal amount of the Convertible Notes of HK$152,000,000 (equivalent to RMB123,348,000) and resulted in a loss on fair value of RMB85,003,000 on initial recognition of the Convertible Notes. The transaction cost for the issuance of Convertible Notes is approximately RMB4,358,000.

31. CONVERTIBLE NOTES – *continued*

The movement of the liability component and conversion option derivative of the Convertible Notes for the year is set out as below:

	Liability component RMB'000	Conversion option derivative RMB'000
At initial recognition	60,057	143,936
Exchange realignment	(2,016)	(4,487)
Interest charge (note 9)	9,017	—
Fair value gain	—	(18,248)
At 31 December 2013	67,058	121,201

The fair value of the conversion option derivative component of the Convertible Notes is estimated using a Binomial Option Pricing Model. The key inputs to the Binomial Option Pricing Model as of 30 January 2013 and 31 December 2013 were as follows:

	31 December 2013	30 January 2013
Risk-free interest rate (i)	1.065%	0.573%
Expected volatility (ii)	50.19%	46.80%

Notes:

(i) Risk-free interest rate used was by reference to Hong Kong Exchange Fund Note at the valuation date.

(ii) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price of the comparable companies.

The fair values were determined by the directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group.

32. SHARE CAPITAL

	Number of shares	Amount USD
Ordinary shares		
Authorised:		
At 1 January 2012, 31 December 2012 and 2013 at USD0.00001 each	5,000,000,000	50,000

	Number of shares	Amount USD	Shown in the consolidated financial statements as RMB'000
Issued and fully paid:			
At 1 January 2012, 31 December 2012 and 2013 at USD0.00001 each	500,000,000	5,000	32

There was no movement in share capital of the Company during any of the two years ended 31 December 2013.

33. DISPOSAL OF A SUBSIDIARY

On 27 September 2013, the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which the Group disposed of 51% equity interest in EnKe Medical, a wholly-owned subsidiary of the Group, for a cash consideration of RMB1,050,000 (the "Disposal"). Upon the completion of the Disposal on 27 September 2013, EnKe Medical ceased to be subsidiary of the Group. However, the Group is able to exercise significant influence over EnKe Medical because the Group continues to be the sole supplier of EnKe Medical. Accordingly, the remaining 49% equity interest in EnKe Medical had been accounted for as interest in an associate in the consolidated financial statements under equity method of accounting.

The assets and liabilities of EnKe Medical at the date of disposal were as follows:

	RMB'000
Consideration received:	
Cash consideration	1,050
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	5
Inventories	9
Trade receivables	2,576
Other receivables	772
Bank balances and cash	832
Trade and other payables	(1,316)
Tax payable	(14)
Net assets disposed of	2,864
Interest in an associate, being the fair value of the retained interest at the time of disposal	(1,008)
Loss on disposal	(806)
Total consideration satisfied by cash	1,050
Net cash inflow arising on disposal:	
Consideration received	1,050
Bank balances and cash disposed of	(832)
	218

The subsidiary disposed of during the year did not have a material impact on the Group's cash flows or operating results.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 RMB'000	2012 RMB'000
Non-current assets		
Property, plant and equipment	**544**	—
Interests in subsidiaries	**103,784**	103,784
Deposit for acquisition of long term investment	**18,287**	18,853
	122,615	122,637
Current assets		
Other receivables	**1,199**	381
Amounts due from subsidiaries	**137,075**	34,310
Bank balances and cash	**30,675**	35,879
	168,949	70,570
Current liabilities		
Amount due to a shareholder	**12,164**	—
Other payables	**360**	579
	12,524	579
Net current assets	**156,425**	69,991
Total assets less current liabilities	**279,040**	192,628
Non-current liabilities		
Convertible notes	**67,058**	—
Conversion option derivative liability	**121,201**	—
	188,259	—
Net assets	**90,781**	192,628
Capital and Reserves		
Share capital	**32**	32
Share premium and reserves	**90,749**	192,596
Total equity	**90,781**	192,628

Note:

	2013 RMB'000	2012 RMB'000
Movement in share premium and reserves:		
1 January	**192,596**	198,590
Loss for the year	**(101,847)**	(5,994)
31 December	**90,749**	192,596

35. OPERATING LEASES

The Group as lessee

	2013 RMB'000	2012 RMB'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	**7,647**	7,075

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	2013 RMB'000	2012 RMB'000
Within one year	**1,574**	4,344
In the second to fifth years inclusive	**627**	816
	2,201	5,160

Operating lease payments represent rentals payable by the Group for certain properties. Leases are negotiated and rentals are fixed for terms ranging from one to five years.

The Group as lessor

	2013 RMB'000	2012 RMB'000
Properties rental income	**1,203**	1,218

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2013 RMB'000	2012 RMB'000
Within one year	**958**	1,193
In the second to fifth years inclusive	**—**	964
	958	2,157

36. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment - contracted for but not provided in the consolidated financial statements	**14,162**	1,285

37. RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to profit or loss of approximately RMB3,982,000 (2012: RMB2,914,000) for the year ended 31 December 2013.

38. RELATED PARTY DISCLOSURES

(a) Transactions and trade balances

The amount is unsecured, interest-free and trade in nature with a credit period of 90 days. The amount is aged within 90 days at the end of the reporting period.

	2013 RMB'000	2012 RMB'000
Amount due to a shareholder		
Medtronic	**12,164**	—

The Group entered into following transactions with related parties during the year:

Nature of transactions	2013 RMB'000	2012 RMB'000
Purchase of other financial asset from Broncus Medical (note 21)	**17,214**	—
Proceeds from issue of convertible notes to Medtronic (note 31)	**123,348**	—
Service fee paid and payable to Medtronic	**20,529**	—
Royalty fee paid and payable to Medtronic	**1,982**	—
Revenue from sales of goods to Enke Medical	**351**	—

38. RELATED PARTY DISCLOSURES – *continued*

(b) Non-trade balances

Details of the Group's non-trade balances with related parties are set out on the consolidated statement of financial position and in notes 21 and 31.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended 31 December 2013 and 2012 was as follows:

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**5,052**	4,530
Post employment benefits	**197**	92
	5,249	4,622

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. CONTINGENT LIABILITIES

The Group is currently involved in a litigation in India. In 2008, a company (the "Plaintiff") filed a suit with The High Court of New Delhi (the "Court") at New Delhi, India, against (i) Lifetech Scientific (Shenzhen) Co., Ltd. ("Lifetech Shenzhen"), (ii) Lifetech Shenzhen's importer in India; and (iii) such importer's local Indian distributor (individually and collectively referred to as "Defendants"). The Plaintiff pleaded to the Court to issue a permanent injunction restraining the Defendants from importing and selling HeartR occluders in India which were accused of infringing the Plaintiff's patent. The Plaintiff also pleaded to order the national importer in India and its local Indian distributor to surrender all the rendition of accounts of profits or a decree of damages of Indian Rupee ("INR") 2,100,000 (equivalent to RMB206,000). As at 31 December 2013 and up to the date of the issue of these consolidated financial statements, the cross-examination of all of the witnesses of the Plaintiff and first witness of Lifetech Shenzhen were completed. The cross-examination of Lifetech Shenzhen's second witness has commenced and is yet to conclude. According to the order dated 22 January 2014, the Court has directed that the cross-examination of the second witness must be concluded by 12 May 2014.

After seeking legal advice, the directors of the Company are of the opinion that it is not probable that the Court will grant a permanent injunction to the Plaintiff and it is also not probable for the Court to award damages to the Plaintiff or direct delivery of infringing devices. Accordingly, the directors consider that no provision is necessary for any potential liability in the consolidated financial statements.

40. INTERESTS IN SUBSIDIARIES

Name of subsidiaries	Place of incorporation/ establishment/operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital/equity interests and voting power held by the Company 2013	2012	Principal activities
New Centre International Ltd.	Hong Kong	HK$1	**100%**	100%	Trading of medical devices
Lifetech Scientific India Private Ltd.	India	INR6,573,680	**100%***	100%*	Trading of medical devices
LifeTech Scientific (Hong Kong) Co., Ltd. 先健科技(香港)有限公司	Hong Kong	HK$1	**100%**	100%	Investment holding
Δ#Lifetech Scientific (Shenzhen) Co., Ltd. 先健科技(深圳)有限公司	The PRC	RMB100,000,000	**100%**	100%	Developing, manufacturing and trading of medical devices
ΔBeijing PerMed Biomedical engineering Co., Ltd. 北京市普惠生物醫學工程公司	The PRC	RMB15,000,000	**100%***	100%*	Developing, manufacturing and trading of medical devices
ΔShenzhen Shineyard Medical Device Co., Ltd. 深圳市擎源醫療器械有限公司	The PRC	RMB5,000,000	**60%***	60%*	Developing, manufacturing and trading of medical devices
ΔShenzhen Lifetech Material Biological Technology Co., Ltd. 深圳市先健生物材料技術有限公司	The PRC	RMB10,000,000	**99%***	99%*	Trading of medical devices
LifeTech Scientific (Europe) Coöperatief U. A.	Netherlands	EUR2,000	**100%***	100%*	Investment holding
Lios Investment Corporation	British Virgin Islands	USD10	**70%***	70%*	Investment holding
LifeTech Scientific (Netherlands) B.V.	Netherlands	EUR18,000	**100%***	100%*	Trading of medical devices
Lifetech Scientific (France) SARL	France	EUR5,000	**90%***	90%*	Trading of medical devices
Lios Russia LLC	Russia	RUB10,000	**70%***	70%*	Trading of medical devices
βLifeTech Scientific (Slovakia) s.r.o.	Slovakia	EUR5,000	**100%***	—	Trading of medical devices
Δβ先監醫療科技(上海)有限公司	The PRC	RMB1,000,000	**100%***	—	Trading of medical devices

β These entities were newly set up during the year ended 31 December 2013.

* Indirectly held through subsidiaries.

\# A wholly foreign owned enterprise.

Δ Limited liability company established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

The directors consider none of the non-wholly owned subsidiaries of the Group has a material non-controlling interest, and accordingly, no summarised financial information in respect of any of these subsidiaries has been presented.

Financial Summary

A summary of the Group' s results for the last five financial years and the assets and liabilities of the Group as at 31 December 2013, 2012, 2011, 2010 and 2009, as extracted from the published audited financial statements and the prospectus of the Company dated 31 October, 2011. The amounts as set out in this financial summary are prepared as if the current structure of the Group had been in existence throughout the years presented.

	Year ended 31 December				
	2013	**2012**	**2011**	**2010**	**2009**
RESULT	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue	**231,035**	181,475	140,324	104,704	79,736
Cost of sales	**(42,399)**	(36,175)	(27,357)	(21,066)	(21,542)
Gross profit	**188,636**	145,300	112,967	83,638	58,194
Other income and other gains and losses	**(48)**	7,246	4,036	2,941	1,323
Selling and distribution expenses	**(52,123)**	(41,221)	(34,552)	(20,057)	(15,684)
Administration expenses	**(63,221)**	(37,898)	(31,246)	(16,771)	(13,161)
Research and development expenses	**(31,039)**	(23,608)	(22,762)	(15,442)	(9,409)
Operating profit	**42,205**	49,819	28,443	34,309	21,263
Offering expenses	**–**	–	(13,634)	(182)	–
Finance (costs) income, net	**(6,108)**	2,352	982	392	357
Share of results of associates	**(11,018)**	(10,488)	–	–	–
(Loss)/Gain on partial disposal of a subsidiary	**(806)**	–	–	–	1,450
Net exchange gain on other financial asset and convertible notes	**6,360**	–	–	–	–
Fair value losses on other financial asset and convertible notes	**(83,826)**	–	–	–	–
Change in fair value of convertible redeemable preferred shares	**–**	–	3,288	(24,107)	(23,086)
(Loss) profit before tax	**(53,193)**	41,683	19,079	10,412	(16)
Income tax expense	**(12,187)**	(8,821)	(6,517)	(6,621)	(4,475)
(Loss) profit for the year	**(65,380)**	32,862	12,562	3,791	(4,491)
(Loss) profit for the year attributable to					
Owners of the Company	**(65,666)**	32,352	11,830	3,936	(4,710)
Non-controlling interests	**286**	510	732	(145)	219
	(65,380)	32,862	12,562	3,791	(4,491)
ASSETS AND LIABILITIES					
Total Assets	**519,976**	364,146	313,218	158,455	148,583
Total Liabilities	**283,929**	63,336	45,378	155,378	137,566
Net Assets	**236,047**	300,810	267,840	3,077	11,017