MicroPort

MicroPort Scientific Corporation

微 創 醫 療 科 學 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Financial Highlights

The board (the "**Board**") of directors (the "**Directors**") of MicroPort Scientific Corporation (the "**Company**") announces the unaudited but reviewed consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

	For the six months ended 30 June		
	2011	2010	Change %
	in RMB million	*in RMB million*	
	(unaudited)	(unaudited)	
Turnover	**448.8**	375.7	19.5
Gross profit	**379.6**	326.2	16.4
Profit for the period	**203.6**	149.7	36.0
Earnings per share — Basic *(RMB)*	**0.14**	0.13	7.7
— Diluted *(RMB)*	**0.14**	0.13	7.7

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011 (unaudited)
(Expressed in RMB)

		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Turnover	3	**448,824**	375,677
Cost of sales		**(69,227)**	(49,431)
Gross profit		**379,597**	326,246
Other revenue	4	**15,395**	2,209
Other net income	4	**22,459**	1,161
Research and development costs		**(70,454)**	(49,150)
Sales and marketing costs		**(61,524)**	(54,067)
Administrative expenses		**(40,993)**	(25,862)
Other operating expenses		**(5,083)**	(11,404)
Profit from operations		**239,397**	189,133
Finance costs	5(a)	**(880)**	(10,518)
Profit before taxation	5	**238,517**	178,615
Income tax	6	**(34,919)**	(28,911)
Profit for the period		**203,598**	149,704
Earnings per share *(RMB)*	7		
— Basic		**0.14**	0.13
— Diluted		**0.14**	0.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011 (unaudited)
(Expressed in RMB)

		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Profit for the period		**203,598**	149,704
Other comprehensive income for the period			
Exchange difference on translation of financial statements of entities outside the PRC, net of nil tax		**(30,374)**	(2,178)
Total comprehensive income for the period		**173,224**	147,526

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011 (unaudited)
(Expressed in RMB)

	Note	**At 30 June 2011** **RMB'000**	At 31 December 2010 *RMB'000*
Non-current assets			
Fixed assets	8		
— Property, plant and equipment		**263,496**	223,019
— Interests in leasehold land held for own use under operating leases		**36,380**	36,770
		299,876	259,789
Intangible assets		**19,769**	19,454
Prepayments for fixed assets		**14,852**	15,506
Goodwill		**2,105**	2,105
Deferred tax assets		**7,684**	9,928
		344,286	306,782
Current assets			
Inventories	9	**70,429**	84,616
Trade and other receivables	10	**306,639**	209,918
Deposits with banks	11	**814,272**	644,273
Cash and cash equivalents	12	**727,584**	928,053
		1,918,924	1,866,860
Current liabilities			
Trade and other payables	13	**86,037**	95,915
Bank loans and interest-bearing borrowings		**452**	50,462
Income tax payable		**15,953**	16,941
Deferred income		**121**	128
		102,563	163,446
Net current assets		**1,816,361**	1,703,414
Total assets less current liabilities		**2,160,647**	2,010,196

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2011 (unaudited)
(Expressed in RMB)

	Note	**At 30 June 2011** ***RMB'000***	At 31 December 2010 *RMB'000*
Non-current liabilities			
Interest-bearing borrowings		**3,743**	3,670
Deferred income	14	**38,450**	20,688
Deferred tax liabilities		**15,080**	15,159
		57,273	39,517
Net assets		**2,103,374**	1,970,679

		At 30 June 2011 ***RMB'000***	At 31 December 2010 *RMB'000*
Capital and reserves	15		
Share capital		**110**	110
Reserves		**2,103,264**	1,970,569
Total equity		**2,103,374**	1,970,679

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 26 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of MicroPort Scientific Corporation (the "Company") and its subsidiaries (the "Group") since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2011.

2. Changes in accounting policies

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

- HKAS 24 (revised 2009), *Related party disclosures*

- Improvements to HKFRSs (2010)

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

The above developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

3. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of businesses and geographic locations. In 2011, the Group separates the electrophysiology devices business from vascular devices business when presenting its reportable segments. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments.

- Vascular devices business: sales, manufacture, research and development of drug eluting stents, TAA/AAA stent grafts, bare metal stents and medical stent related products to appointed sales distributors.

- Diabetes devices business: sales, manufacture, research and development of devices related to diabetes mellitus.

- Orthopedics devices business: sales, manufacture, research and development of orthopedics technology.

- Electrophysiology devices business: sales, manufacture, research and technology development of electrophysiology devices.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible assets, intangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables, bank loans, interest-bearing borrowings and deferred income attributable to the activities of each individual segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "segment net profit/(loss)". Items that are not specifically attributed to individual segments, such as unallocated corporate income and expenses, equity-settled share-based compensation expenses, changes in fair value of redeemable convertible preference shares, listing expenses incurred for the Company's initial public offerings and PRC dividend withholding tax are excluded from segment net profit/(loss).

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

	Six months ended 30 June 2011				
	Vascular devices business	**Diabetes devices business**	**Orthopedics devices business**	**Electrophysiology devices business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers (note(d))	**444,723**	**1,578**	**—**	**2,523**	**448,824**
Reportable segment profit/(loss)	**212,748**	**(4,979)**	**(6,958)**	**(7,700)**	**193,111**
Depreciation and amortisation for the period	**13,233**	**832**	**1,410**	**863**	**16,338**
Income tax	**36,031**	**—**	**—**	**—**	**36,031**
Write-down of inventories	**5,571**	**—**	**—**	**—**	**5,571**
Additions to non-current segment assets	**51,782**	**148**	**3,314**	**1,499**	**56,743**
	At 30 June 2011				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	**797,111**	**43,303**	**37,876**	**52,264**	**930,554**
Reportable segment liabilities	**135,187**	**3,819**	**1,358**	**417**	**140,781**

	Six months ended 30 June 2010				
	Vascular devices business	Diabetes devices business	Orthopedics devices business	Electrophysiology devices business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers (note(d))	372,115	3,333	—	229	375,677
Reportable segment profit/(loss)	191,376	(5,004)	(6,299)	(8,343)	171,730
Depreciation and amortisation for the period	10,833	1,052	651	230	12,766
Income tax	28,905	6	—	—	28,911
Write-down of inventories	2,169	—	—	—	2,169
Additions to non-current segment assets	32,319	1,371	—	—	33,690
	At 31 December 2010				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	632,535	50,446	33,484	56,903	773,368
Reportable segment liabilities	166,724	5,789	—	4,359	176,872

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Profit		
Reportable segment net profit	**193,111**	171,730
Equity-settled share-based compensation expenses	**(18,531)**	(3,440)
Change in fair value of redeemable convertible preference shares	**—**	(8,239)
Listing expenses incurred for the Company's initial public offering	**—**	(10,000)
Unallocated corporate income and expenses	**29,018**	(347)
Consolidated profit for the period	**203,598**	149,704

	At 30 June	At 31 December
	2011	2010
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**930,554**	773,368
Unallocated corporate assets	**1,332,656**	1,400,274
Consolidated total assets	**2,263,210**	2,173,642
Liabilities		
Reportable segment liabilities	**140,781**	176,872
Unallocated corporate liabilities	**19,055**	26,091
Consolidated total liabilities	**159,836**	202,963

Unallocated corporate income and expenses mainly include corporate foreign exchange gain/(loss), interest income, administration costs and other expenses.

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

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

(c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered. Revenue attributable to individual countries except the PRC is not material. Substantially all of the Group's assets are located in the PRC, therefore, assets by geographic location are not presented.

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
The PRC	**416,593**	347,461
Asia (exclude the PRC)	**15,576**	14,650
South America	**14,621**	8,941
Europe	**2,034**	4,625
	32,231	28,216
	448,824	375,677

(d) Major customers

The Group's customer base includes three customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2011 (six month ended 30 June 2010: three customers). Revenue from these customers is set out below:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Customer A	**100,747**	85,949
Customer B	**51,780**	47,732
Customer C	**51,891**	44,634
	204,418	178,315

A group of entities known to be under common control is considered as a single customer in the above analysis. All of the above customers purchase vascular and electrophysiology devices from the Group in the PRC.

4. Other revenue and net income

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Other revenue		
Government grant	**778**	200
Interest income on bank deposits	**14,617**	1,915
Others	**—**	94
	15,395	2,209
Other net income		
Net foreign exchange gain	**22,469**	1,167
Other net losses	**(10)**	(6)
	22,459	1,161

5. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on borrowings	**715**	2,038
Others	**165**	241
Total interest expense on financial liabilities not at fair value through profit or loss	**880**	2,279
Change in fair value of redeemable convertible preference shares	**—**	8,239
	880	10,518

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(b) Other items		
Amortisation of intangible assets	**368**	368
Depreciation	**15,970**	12,398
Research and development costs (other than depreciation)	**65,646**	44,889
Inventories write-down (note 9)	**5,571**	2,169

6. Income tax

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax for the period	**32,754**	28,285
Deferred tax		
Origination and reversal of temporary difference	**2,165**	626
	34,919	28,911

(a) Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than the PRC and the Netherlands are not subject to any income tax in these jurisdictions.

(b) MicroPort Medical B.V. ("MP B.V."), the Company's 100% owned subsidiary in the Netherlands, is subject to the Netherlands corporate income tax which was charged at progressive rates ranging from 20% to 25.5% during 2010 and 2011. As MP B.V. is loss making for the six months ended 30 June 2011, no current tax is provided.

(c) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

According to Guoshuihan [2009] No. 203, if the entity is certified as an "advanced and new technology enterprise", it is entitled to a preferential income tax rate of 15%. MicroPort Medical (Shanghai) Co., Ltd. ("MP Shanghai"), the Company's 100% owned PRC subsidiary, has been certified as "advanced and new technology enterprise" since 2008. According to the PRC laws and regulations, MP Shanghai has to apply for the continuing entitlement of "advanced and new technology enterprise" every three years. In 2011, MP Shanghai has submitted the relevant application for the continuing entitlement of "advanced and new technology enterprise" and management of MP Shanghai is of the view that it will be able to obtain the renewed certificate in late 2011. Therefore, a 15% income tax rate is applied when calculating the income tax of MP Shanghai for the six months ended 30 June 2011.

The applicable income tax rate of the Group's other PRC subsidiaries is 25%.

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB203,598,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB149,704,000) and the weighted average of 1,442,221,000 ordinary shares in issue during the six months ended 30 June 2011 (six months ended 30 June 2010: 1,137,211,000 ordinary shares, after adjusting for the share split in September 2010).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB203,598,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB149,704,000) and the weighted average of 1,468,962,000 ordinary shares for the six months ended 30 June 2011 (six months ended 30 June 2010: 1,140,997,000 ordinary shares, after adjusting for the share split in September 2010) in issue after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme.

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

	Six months ended 30 June	
	2011	2010
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares during the period	**1,442,221**	1,137,211
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**26,741**	3,786
Weighted average number of ordinary shares (diluted) during the period	**1,468,962**	1,140,997

8. Property, plant and equipment

During the six months ended 30 June 2011, the Group acquired items of equipment and machinery with a cost of RMB9,689,000 (six months ended 30 June 2010: RMB6,275,000) and incurred construction costs for buildings of RMB40,068,000 (six months ended 30 June 2010: RMB21,169,000).

9. Inventories

During six months ended 30 June 2011, RMB5,571,000 (six months ended 30 June 2010: RMB2,169,000) has been recognized, for certain obsolete inventories, as a reduction in the amount of inventories and as an addition to the cost of sales.

10. Trade and other receivables

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Current	**271,780**	199,321
Less than 1 month past due	**5,935**	2,075
1 to 3 months past due	**78**	186
More than 3 months past due	**2,613**	2,833
	280,406	204,415
Less: Allowance for doubtful debts	**(2,523)**	(2,523)
Trade receivables net of allowance for doubtful debts	**277,883**	201,892
Prepayments	**12,339**	5,525
Other receivables	**16,417**	2,501
	306,639	209,918

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

11. Deposits with banks

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Time deposits with original maturities over three months	**809,999**	640,000
Pledged deposits	**4,273**	4,273
	814,272	644,273

12. Cash and cash equivalents

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Cash at bank and on hand	**181,009**	928,053
Time deposits with banks	**546,575**	—
	727,584	928,053

Time deposits with banks as at 30 June 2011 are all within three months of maturity at acquisition.

13. Trade and other payables

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Due within 1 month or on demand	**29,336**	9,274
Due after 1 month but within 3 months	**490**	1,223
Due after 3 months but within 6 months	**—**	687
Trade payables	**29,826**	11,184
Receipts in advance	**288**	438
Other payables and accruals	**54,505**	84,064
Dividends payable to equity shareholders of the Company	**1,418**	229
	86,037	95,915

14. Deferred income

Deferred income represents government grant received for supporting the Group's expenditures in respect of certain research and development projects.

15. Capital, reserves and dividends

(a) Dividends

(i) No interim dividend was declared after the interim period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HKD5 cents (equivalent to RMB4.16 cents) per share (six months ended 30 June 2010: USD0.07 cents (equivalent to RMB0.47 cents) per share)	**60,042**	2,370

(b) Equity settled share-based transactions

54,759 share options were exercised during the six months ended 30 June 2011 (2010: 403,379) and the total number of ordinary shares increased by 547,590 for the six months ended 30 June 2011 (2010: 4,033,790 ordinary shares), after adjusting for the share split in September 2010.

16. Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Contracted for	**102,824**	77,016
Authorised but not contracted for	**56,763**	84,889
	159,587	161,905

17. Material related party transactions

The Group has transactions with the companies controlled by the ultimate shareholder ("Ultimate shareholder's companies"). The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

(a) Recurring

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Sales of goods to:		
Ultimate shareholder's companies	**15,562**	14,518

(b) Amounts due from

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Trade receivables due from:		
Ultimate shareholder's companies	**11,746**	6,373

18. Comparative figures

Certain items in the comparative figures have been reclassified to conform with the current period's presentation to facilitate comparison. Details of these reclassifications are disclosed in note 3.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a leading developer, manufacturer and marketer of medical devices in the PRC, engaging in the research and development, manufacturing and sales of various high-end medical products. Our products include those for vascular diseases and disorders, such as cardiovascular, neurovascular, peripheral and intracranial vascular, as well as devices for cardiology, orthopedics and diabetes. Our products are sold to 897 hospitals throughout the PRC and exported to approximately 20 countries in the Asia Pacific region (excluding the PRC), South America and Europe.

During the six months ended 30 June 2011, the Company achieved a record profit of approximately Renminbi ("RMB") 203.6 million over a revenue of approximately RMB448.8 million, compared to the profit of RMB149.7 million over the revenue of RMB375.7 million for the six months ended 30 June 2010. This achievement was made possible with the dedication of our employees, our continual cost cutting measures and a better reputation of our product within the medical community.

Our third generation drug eluting coronary stent (the "Firehawk") is undergoing extensive clinical studies. In May 2011, we have successfully enrolled 510 patients for a Target I randomized controlled trial (the "Target I Trial"). There are 16 top tier national clinical trial centers participating in this Target I Trial. Target II single arm trial, has already started in July 2011, and over 700 patients will be enrolled in over 30 major hospitals in the PRC.

Our thoracic aortic aneurysm ("TAA")/abdominal aortic aneurysm ("AAA") products maintain their market leading position during the first half of 2011. We are the only major domestic manufacturer in the stent graft market and are successfully competing with two other international companies in this sector. Sales of our Apollo intracranial stents are also enjoying healthy growth during the first half of 2011.

Our electrophysiological ("EP") devices, the cardiac RF ablation catheter (the "FireMagic") and the fixed curve diagnostic catheter (the "EasyFinder"), have shown notable growth in revenue since their launches in first half of 2010 and 2011 separately. Positive response from our new EP products meant our efforts in research and development has come to fruition, and we expect it to greatly enhance our future growth. During the period under review, we have secured eight patents, including inventions, utility models as well as design, from the State Intellectual Property Office (the "SIPC") of the PRC, with three of them belonging to the field of EP devices. These patents include "System and method for quickly constructing 3D geometric model of lumen in human organ" (invention patent), "A Carrying Device for the Magnetic Field Generator" (invention patent) and "The Shell of 3D Cardiac EP Mapping System" (designing patent). We are proud of our 3D mapping system as it represents the first time that such a system has been designed and built locally by a PRC company. Current clinical studies of our EP devices have shown remarkable performance and therefore will pave the way for the larger scale upcoming clinical trials. Our goal is to provide eventually a complete EP solution, including diagnostics and treatment devices.

Four of our orthopedics products have been granted CE certificates in November 2010 and we have actively pursued sales for this division by building up our sales and marketing channels in the European Union for these products. On 16 July 2011, we managed to secure our first significant agreement with a key international distributor and will soon supply our spinal implants to the international market. This agreement covers 18-months of purchasing orders valued at US Dollars ("USD") 3.5 million. Aside from existing orthopedic products, we are in the process of applying for CE certification for our new spine and trauma products.

We have increased research and development efforts in our diabetic products line and are expecting certain patent registration over the next few years. New products in the pipeline are micro-infusion gonadotropin-releasing hormone (GnRH) pump and motor driven insulin pen. Our micro-infusion GnRH pump is showing promising results in clinical trials and if registration process is smooth, this product can enter the market in early 2012. Meanwhile, our motor driven insulin pen has just been prototyped and is expected to safety testing and fine tuning in the second half of 2011.

On the overseas front, two of our products for the treatment of cardiovascular diseases, the Hercules Thoracic Stent-Graft System and Hercules Bifurcated Stent-Graft System have been granted approval for the registration by the Bureau of Food and Drugs of Philippines in January and April 2011 respectively.

Our remarkable financial performance as well as our research and development achievements have strengthened our foundation both in the PRC and overseas. We remain confident in our long-term growth prospects through continuing diversification and innovation of our products, as well as leverage on our cutting edge research and development. Overall, we are very satisfied with the results for the first half of 2011.

The following discussion is based on, and should be read in conjunction with, the financial information and the notes thereto included elsewhere in this announcement of interim results.

RESULTS OF OPERATION

Turnover

Turnover increased by 19.5% from RMB375.7 million in the six months ended 30 June 2010 to RMB448.8 million in the six months ended 30 June 2011. Drug eluting stents accounted for most of the increase in turnover. We did not generate any turnover from our orthopedics device business during the six months ended 30 June 2010 and 2011 as that business has just been launched and is expected to start generating turnover in the second half of 2011.

Revenue from drug eluting stents

Revenue generated from the sales of drug eluting stents increased by 21.7% from RMB327.4 million in the six months ended 30 June 2010 to RMB398.4 million in the six months ended 30 June 2011. Growth in this six-month period was primarily driven by the continued growth and development of the market for the drug eluting stents in the PRC.

Revenue from TAA/AAA Stent Grafts

Revenue generated from the sales of TAA/AAA stent grafts increased by 9.4% from RMB23.4 million in the six months ended 30 June 2010 to RMB25.6 million in the six months ended 30 June 2011. Growth in this six-month period remains steady, with us maintaining our market position.

Revenue from EP devices

Revenue generated from our EP devices increased from RMB0.2 million in the six months ended 30 June 2010 to RMB2.5 million in the six months ended 30 June 2011. We are very pleased with the financial performance of our EP devices as this is an indication of the EP devices being accepted by the market. It also reflects the efforts that our sales and marketing team has put into these products thus getting them off the ground.

Revenue from other businesses

Revenue generated from sales of other medical devices and products decreased by 9.7% from RMB24.7 million in the six months ended 30 June 2010 to RMB22.3 million in the six months ended 30 June 2011.

Cost of sales

Cost of sales increased by 40.0% from RMB49.4 million in the six months ended 30 June 2010 to RMB69.2 million in the six months ended 30 June 2011. The increase was primarily due to the increase in sales volume.

Gross profit and gross margin

As a result of the foregoing factors, gross profit increased by 16.4% from RMB326.2 million in the six months ended 30 June 2010 to RMB379.6 million in the six months ended 30 June 2011, and gross margin remained relatively stable in the six months ended 30 June 2011 compared to the same period in 2010.

Other revenue and other net income

We had other revenue of RMB15.4 million and other net income of RMB22.5 million for the six months ended 30 June 2011. Compared to 30 June 2010, other revenue was RMB2.2 million while other net income was RMB1.2 million. These increases were primarily attributable to the funds raised from our initial public offering (the "IPO") and were generating other revenue for the Company in the form of interest income and other net income from foreign exchange gain on deposits placed in the form of RMB.

Research and development costs

Research and development costs increased by 43.3% from RMB49.2 million in the six months ended 30 June 2010 to RMB70.5 million in the six months ended 30 June 2011. The increase was primarily due to an increase in salaries, bonuses and related expenses for personnel engaged in research and development.

Sales and marketing costs

Sales and marketing costs increased by 13.8% from RMB54.1 million in the six months ended 30 June 2010 to RMB61.5 million in the six months ended 30 June 2011. The increase was primarily due to an increase of salaries, bonuses and related expenses for personnel engaged in sales and marketing.

Administrative expenses

Administrative expenses increased by 58.5% from RMB25.9 million in the six months ended 30 June 2010 to RMB41.0 million in the six months ended 30 June 2011. The increase was primarily attributable to the increases in salaries, bonuses and related expenses for administrative personnel as well as the amortization expenses of options.

Finance costs

Finance costs decreased from RMB10.5 million in the six months ended 30 June 2010 to RMB0.9 million in the six months ended 30 June 2011. As all redeemable convertible preference shares of the Company were converted into ordinary shares upon IPO, the Company no longer incurs finance cost related to the redeemable convertible preference shares on 30 June 2011.

Income tax

Income tax increased from RMB28.9 million in the six months ended 30 June 2010 to RMB34.9 million in the six months ended 30 June 2011. This increase was primarily due to the increase in net profit of the Company. On the other hand, our effective tax rate decreased from 16.2% in the six months ended 30 June 2010 to 14.6% in the six months ended 30 June 2011.

Profit for the period and net profit margin

As a result of the foregoing factors, profit for the period increased by 36.0% from RMB149.7 million in the six months ended 30 June 2010 to RMB203.6 million in the six months ended 30 June 2011, and net profit margin increased from 39.8% in the six months ended 30 June 2010 to 45.4% in the six months ended 30 June 2011.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had cash and cash equivalent of RMB727.6 million (31 December 2010: RMB928.1 million). The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

Borrowing and gearing ratio

Total borrowing of the Group as at 30 June 2011 was RMB4.2 million, as compared to RMB54.1 million as of 31 December 2010, and denominated in RMB. It bears a variable interest rate which is determined based on the annual deposit rate as quoted by the People's Bank of China on each 29 September, plus 0.3 percent. As at 30 June 2011, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 0.002, as compared to 0.027 as at 31 December 2010.

Working capital

Our working capital as at 30 June 2011 was RMB1,816.4 million, as compared to RMB1,703.4 million as at 31 December 2010.

Foreign exchange exposure

The Group is exposed to currency risk primarily from (i) sales and purchases which give rises to receivables and payables that are denominated in a foreign currency (mainly in USD); and (ii) IPO proceeds received by the Company were in Hong Kong Dollars ("HKD") and were mostly exchanged into RMB and USD. The Company has adopted the USD as its functional currency, thus the fluctuation of exchange rates between RMB and USD exposes the Group to currency risk. During the period under review, the Group recorded a net exchange gain of RMB22.5 million, as compared to RMB1.2 million for the six months ended 30 June 2010. The Group does not employ any financial instruments for hedging purposes.

Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately RMB44.9 million, which was used in the construction of buildings as well as acquiring equipment and machinery (30 June 2010: RMB51.6 million).

Charge on assets

As at 30 June 2011, the Group had pledged its building held for own use with a net book value of RMB26.8 million (30 June 2010: RMB29.7 million) for the purpose of securing a loan with a carrying value of RMB4.2 million (30 June 2010: RMB4.7 million).

Contingent liabilities

As at 30 June 2011, the Group had no material contingent liabilities or any significant outstanding contingent liabilities (30 June 2010: Nil).

HUMAN RESOURCES

As at 30 June 2011, the Group employed approximately 1,164 employees, as compared to 1,214 employees as at 30 June 2010. Total staff costs for the period under review, including Directors' remuneration, amounted to approximately RMB99.9 million (30 June 2010: approximately RMB67.9 million). The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

PROSPECTS

Our Company's persistent emphasis on research and development has led to a series of products in the pipeline that are being actively developed and tested through clinical trials and studies, or are in the process of being validated by various government or licensing approvals:

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

   In line with our continuous improvement philosophy, we are committed to improve the quality of our existing product offering and lead to the next generation of medical device products. Our research and development efforts are focused on increasing the safety and efficiency of our existing drug eluting coronary stents, as well as our third generation drug eluting coronary stents, the Firehawk, which is currently undergoing extensive clinical studies, and achieving excellent progress. Significant efforts will be invested for continuous development to secure our leading position in the cardiovascular devices sector.

2. Diversification of our existing and new products

Apart from our current strength in the vascular and coronary areas of medicine, we are further expanding our presence and diversifying into complementary and new product lines, such as EP and orthopedics devices. Our aim is to provide a complete range of EP devices that includes diagnostics and treatment equipment in the near future. We are also actively performing research and development on a new artificial pacemaker with promising results coming from the software design, which could see it implemented onto an artificial pacemaker chip before the end of 2011.

3. Internationalizing our brand and our products

We will continue to market our products globally and focus on exploring new markets. Our four orthopedic products that have been granted the necessary CE certificates enable our business to enter the European market. These new products will start to generate revenue in the second half of 2011 as we have secured some orders recently. Our business is also focusing on developing new global markets for our vascular products, and our long term aim is for our complete range of products to be available in every country. We are committed to realizing the MicroPort global brand concept, and are determined to achieve recognition by patients and doctors globally as a guarantee for best quality and outstanding services.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2011, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Having made specific enquiry of all the Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the principles as set out in the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance throughout the six months ended 30 June 2011.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2011 (2010: Nil).

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. The Audit Committee has reviewed the interim results for the six months ended 30 June 2011 with the management of the Company.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE AND THE COMPANY

The Company's interim report containing all the relevant information required by the Listing Rules will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.microport.com.cn) in due course.

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

Shanghai, 26 August 2011

As at the date of this announcement, the executive Directors are Dr. Zhaohua Chang, Ms. Yan Zhang, Mr. Hongbin Sun and Mr. Qiyi Luo; the non-executive Directors are Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji, Mr. Lei Ding (appointed on 26 August 2011) and Mr. Xiaolong Liu (resigned on 26 August 2011); and the independent non-executive Directors are Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu.