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 2012

FINANCIAL HIGHLIGHTS

The board (the "**Board**") of directors (the "**Directors**") of MicroPort Scientific Corporation (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the six months ended 30 June 2012, which have been reviewed by the Company's audit committee, together with the comparative figures for the corresponding previous period as follows:

	For the six months ended 30 June		
	2012	2011	Change
	RMB'000	*RMB'000*	%
	(unaudited)	(unaudited)	
Turnover	**484,916**	448,824	8.0
Gross Profit	**413,083**	379,597	8.8
Profit for the period	**222,671**	203,598	9.4
Earnings per share –			
Basic (RMB)	**0.16**	0.14	14.3
Diluted (RMB)	**0.16**	0.14	14.3

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012 (unaudited)

(Expressed in Renminbi unless otherwise indicated)

		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**484,916**	448,824
Cost of sales		**(71,833)**	(69,227)
Gross profit		**413,083**	379,597
Other revenue	*4*	**24,716**	15,395
Other net income	*4*	**1,095**	22,459
Research and development costs		**(62,824)**	(70,454)
Distribution costs		**(64,886)**	(61,524)
Administrative expenses		**(46,637)**	(40,993)
Other operating costs		**(313)**	(5,083)
Profit from operations		**264,234**	239,397
Finance costs	*5(a)*	**(327)**	(880)
Profit before taxation	*5*	**263,907**	238,517
Income tax	*6*	**(41,236)**	(34,919)
Profit for the period		**222,671**	203,598
Earnings per share	*7*		
– Basic (RMB)		**0.16**	0.14
– Diluted (RMB)		**0.16**	0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012 (unaudited)
(Expressed in Renminbi unless otherwise indicated)

		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Profit for the period		**222,671**	203,598
Other comprehensive income for the period			
Exchange difference on translation of financial statements of entities outside the PRC, net of nil tax		**4,010**	(30,374)
Total comprehensive income for the period		**226,681**	173,224

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 (unaudited)

(Expressed in Renminbi unless otherwise indicated)

	Note	**At 30 June 2012** *RMB'000*	At 31 December 2011 *RMB'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment	*8*	**417,913**	322,113
– Land use rights		**37,798**	38,269
		455,711	360,382
Intangible assets		**96,368**	85,632
Prepayments for fixed assets		**24,245**	46,978
Prepayments for investments	*9*	**41,355**	–
Goodwill	*10*	**66,466**	64,466
Deferred tax assets		**9,980**	11,674
		694,125	569,132
Current assets			
Inventories	*11*	**70,097**	73,962
Trade and other receivables	*12*	**356,487**	286,617
Deposits with banks	*13*	**1,100,129**	319,279
Cash and cash equivalents	*14*	**289,888**	1,095,209
		1,816,601	1,775,067
Current liabilities			
Trade and other payables	*15*	**165,660**	141,284
Short term loan		**–**	2,000
Long term loan (current portion)		**483**	476
Income tax payable		**20,780**	10,059
Deferred income		**107**	114
		187,030	153,933
Net current assets		**1,629,571**	1,621,134
Total assets less current liabilities		**2,323,696**	2,190,266
Non-current liabilities			
Long term loan		**3,243**	3,193
Deferred income	*16*	**40,410**	46,628
Deferred tax liabilities		**24,981**	25,290
		68,634	75,111
Net assets		**2,255,062**	2,115,155

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2012 (unaudited)

(Expressed in Renminbi unless otherwise indicated)

	Note	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Capital and reserves	*17*		
Share capital		**109**	109
Reserves		**2,254,953**	2,115,046
Total equity		**2,255,062**	2,115,155

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 (unaudited)

(Expressed in Renminbi unless otherwise indicated)

		Attributable to equity shareholders of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital redemption reserve *RMB'000*	Exchange reserve *RMB'000*	Capital reserve *RMB'000*	Statutory general reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Balance at 1 January 2011		110	1,532,435	–	(4,111)	24,505	13,828	403,912	1,970,679
Changes in equity for the six months ended 30 June 2011:									
Profit for the period		–	–	–	–	–	–	203,598	203,598
Other comprehensive income		–	–	–	(30,374)	–	–	–	(30,374)
Total comprehensive income		–	–	–	(30,374)	–	–	203,598	173,224
Dividends approved in respect of the previous year	*17(a)*	–	–	–	–	–	–	(60,042)	(60,042)
Equity-settled share-based transactions		–	–	–	–	18,531	–	–	18,531
Share issued under the share option plans	*17(b)*	–	1,428	–	–	(446)	–	–	982
Balance at 30 June 2011 and 1 July 2011		110	1,533,863	–	(34,485)	42,590	13,828	547,468	2,103,374
Changes in equity for the six months ended 31 December 2011:									
Profit for the period		–	–	–	–	–	–	117,257	117,257
Other comprehensive income		–	–	–	(31,948)	–	–	–	(31,948)
Total comprehensive income		–	–	–	(31,948)	–	–	117,257	85,309
Equity-settled share-based transactions		–	–	–	–	8,164	–	–	8,164
Share issued under the share option plans		–	7,057	–	–	(2,672)	–	–	4,385
Repurchase of own shares									
– par value paid		(1)	–	–	–	–	–	–	(1)
– premium paid		–	–	–	–	–	–	(86,576)	(86,576)
– transfer between reserves		–	–	1	–	–	–	(1)	–
Appropriation of statutory general reserve		–	–	–	–	–	30,107	(30,107)	–
Share purchased under share award scheme		–	–	–	–	(14,925)	–	–	(14,925)
Share granted under share award scheme		–	–	–	–	15,425	–	–	15,425
Balance at 31 December 2011		109	1,540,920	1	(66,433)	48,582	43,935	548,041	2,115,155

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2012 (unaudited)

(Expressed in Renminbi unless otherwise indicated)

		Attributable to equity shareholders of the Company							
	Note	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**Capital redemption reserve** *RMB'000*	**Exchange reserve** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory general reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2012		109	1,540,920	1	(66,433)	48,582	43,935	548,041	2,115,155
Changes in equity for the six months ended 30 June 2012:									
Profit for the period		–	–	–	–	–	–	222,671	222,671
Other comprehensive income		–	–	–	4,010	–	–	–	4,010
Total comprehensive income		–	–	–	4,010	–	–	222,671	226,681
Dividends approved in respect of the previous year	*17(a)*	–	–	–	–	–	–	(80,969)	(80,969)
Equity settled share-based transactions		–	–	–	–	10,053	–	–	10,053
Shares issued under share option scheme	*17(b)*	–	1,597	–	–	(700)	–	–	897
Shares purchased under share award scheme	*17(c)*	–	–	–	–	(16,755)	–	–	(16,755)
Balance at 30 June 2012		109	1,542,517	1	(62,423)	41,180	43,935	689,743	2,255,062

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012 (unaudited)

(Expressed in Renminbi unless otherwise indicated)

		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Cash generated from operations		**196,529**	166,027
Income tax paid		**(29,131)**	(33,743)
Net cash generated from operating activities		**167,398**	132,284
Net cash used in investing activities		**(945,785)**	(213,334)
Net cash used in financing activities		**(25,962)**	(119,629)
Net decrease in cash and cash equivalents		**(804,349)**	(200,679)
Cash and cash equivalents at 1 January	*14*	**1,095,209**	928,053
Effect of foreign exchange rate changes		**(972)**	210
Cash and cash equivalents at 30 June	*14*	**289,888**	727,584

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2012 (unaudited)
(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 27 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

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 2011 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 2011 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 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 March 2012.

2. Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

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

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

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

(a) Segment result and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results and assets attributable to each reportable segment on the following bases:

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/(loss) 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 payment expenses and PRC dividend withholding tax are excluded from segment profit/(loss).

Segment assets include all tangible assets, intangible assets and current assets with the exception of corporate assets.

	Six months ended 30 June 2012				
	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	**459,358**	**4,983**	**16,931**	**3,644**	**484,916**
Reportable segment profit/(loss)	**243,960**	**(5,232)**	**(3,990)**	**(11,728)**	**223,010**
	At 30 June 2012				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	**1,298,163**	**24,449**	**392,429**	**50,525**	**1,765,566**

3. Segment reporting *(continued)*

(a) Segment result and assets (continued)

	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	444,723	1,578	–	2,523	448,824
Reportable segment profit/(loss)	212,748	(4,979)	(6,958)	(7,700)	193,111
	At 31 December 2011				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	1,066,008	28,006	208,382	50,217	1,352,613

(b) Reconciliations of reportable segment results

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit		
Reportable segment net profit	**223,010**	193,111
Equity-settled share-based payment expenses	**(10,053)**	(18,531)
Unallocated exchange (loss)/gain	**(1,096)**	23,602
Unallocated income /(expenses), net	**10,810**	5,416
Consolidated profit for the period	**222,671**	203,598

4. Other revenue and net income

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Other revenue		
Government grants	**8,122**	778
Interest income on bank deposits	**16,594**	14,617
	24,716	15,395
Other net income		
Net foreign exchange gain	**1,404**	22,469
Other net losses	**(309)**	(10)
	1,095	22,459

5. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on borrowings	**156**	715
Others	**171**	165
Total finance costs	**327**	880

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(b) Other items		
Amortisation of intangible assets	**1,918**	368
Depreciation	**16,571**	15,970
Research and development costs	**62,824**	70,454
Inventories write-down *(note 11)*	**1,356**	5,571

The research and development costs include amortisation of intangible assets of RMB142,000 (six months ended 30 June 2011: RMB172,000) and depreciation of RMB4,839,000 (six months ended 30 June 2011: RMB4,636,000).

6. Income tax

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax – PRC corporate income tax	**39,846**	32,754
Current tax – others	**5**	–
Deferred taxation	**1,385**	2,165
	41,236	34,919

MicroPort Medical (Shanghai) Co., Ltd. ("MP Shanghai"), a major subsidiary of the Group, has obtained the renewed certificate of "advanced and new technology enterprise" dated 17 August 2011 with an effective period of three years. According to Guoshuihan 2009 No.203, if an entity is certified as an "advanced and new technology enterprise", it is entitled to a preferential income tax rate of 15%. The provision for PRC corporate income tax for MP Shanghai is calculated by applying the income tax rate of 15% (six months ended 30 June 2011: 15%) to the six months ended 30 June 2012. All of the other PRC subsidiaries of the Group are subject to income tax at 25% (six months ended 30 June 2011: 25%). Taxation for other entities of the Group is similarly calculated using the applicable income tax rates of the respective countries or jurisdictions.

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 RMB222,671,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB203,598,000) and the weighted average of 1,418,379,000 ordinary shares in issue during the six months ended 30 June 2012 after adjusting for the effects of the shares purchased under share award scheme (see note 17(c)) (six months ended 30 June 2011: 1,442,221,000 ordinary shares).

(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 RMB222,671,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB203,598,000) and the weighted average of 1,430,720,000 ordinary shares for the six months ended 30 June 2012 (six months ended 30 June 2011: 1,468,962,000 ordinary shares) in issue after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme (see note 7(c)).

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

	Six months ended 30 June	
	2012	2011
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares during the period	**1,418,379**	1,442,221
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**12,341**	26,741
Weighted average number of ordinary shares (diluted) during the period	**1,430,720**	1,468,962

8. Property, plant and equipment

During the six months ended 30 June 2012, the Group acquired items of property and equipment with a cost of RMB62,251,000 (six months ended 30 June 2011: RMB10,658,000), and incurred construction costs for buildings of RMB49,366,000 (six months ended 30 June 2011: RMB40,068,000).

9. Prepayments for investments

Pursuant to an equity transfer agreement dated 27 April 2012, the Group has agreed to acquire and the sellers have agreed to sell certain medical device manufacture and distribution business (“Target Companies”) in the PRC (“Proposed Acquisition”). As at 30 June 2012, the Group made prepayments of RMB11,355,000 for the Proposed Acquisition. The completion of the Proposed Acquisition is subject to certain closing conditions (“Closing Conditions”) including: i) various governmental approvals relating to the acquisition; ii) no significant unfavourable changes of the Target Companies prior to the completion date of the Proposed Acquisition; iii) updated licenses/registration documents reflecting the Group as the shareholders of the Target Companies; iv) the sellers of the Target Companies handing over all the assets on the agreed assets transfer list to the Group; v) the Group’s completion of legal due diligence with satisfactory results; and vi) other Closing Conditions as specified in the equity transfer agreement. Although various governmental approvals have been obtained and updated licenses/registration documents reflecting the Group as the shareholders of the Target Companies have been obtained, the Company’s directors determine that the Proposed Acquisition has not been consummated yet as other Closing Conditions have not been met.

Pursuant to an equity transfer agreement dated 25 June 2012, subject to the satisfaction of certain closing conditions as defined in that agreement, the Group has agreed to purchase 100% equity interest of a medical device manufacture and distribution business (“Target Business”) in the PRC (“Proposed Transaction”). As at 30 June 2012, the Group made prepayments of RMB30,000,000 for this Proposed Transaction. The acquisition of the Target Business has not been consummated yet as certain closing conditions have not been met.

10. Goodwill

On 29 November 2011, the Group completed an acquisition of 100% equity interest in Suzhou Best Medical Instruments Co., Ltd. (“Suzhou Best”). Goodwill of RMB64,466,000 was recognised at the date of acquisition in prior year’s financial statements. Pursuant to an agreement dated 15 January 2012, the Group agreed to make an incremental payment of RMB2,000,000 to a former shareholder of Suzhou Best, which is considered as additional consideration to the acquisition and has been recognised as an adjustment to the goodwill previously recognised for the acquisition.

11. Inventories

During the six months ended 30 June 2012, an additional provision for obsolete stock of RMB1,356,000 (six months ended 30 June 2011: RMB5,571,000) has been recognised as an expense in the cost of sales.

12. Trade and other receivables

	At 30 June 2012	At 31 December 2011
	RMB’000	*RMB’000*
Current	**312,386**	255,387
Less than 1 month past due	**11,073**	14,207
1 to 3 months past due	**4,285**	351
More than 3 months past due	**1,563**	2,655
Trade receivables net of allowance for doubtful debts	**329,307**	272,600
Other debtors	**17,366**	7,021
Prepayments	**9,814**	6,996
	356,487	286,617

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

13. Deposits with banks

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Time deposits with original maturities over three months	**1,095,850**	315,000
Pledged deposits	**4,279**	4,279
	1,100,129	319,279

14. Cash and cash equivalents

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Cash at bank and on hand	**224,888**	1,095,209
Time deposits with banks	**65,000**	–
	289,888	1,095,209

Time deposits with banks as at 30 June 2012 are all within three months of maturity at acquisition.

15. Trade and other payables

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Due within 1 month or on demand	**11,286**	32,009
Due after 1 month but within 3 months	**2,492**	6,583
Due after 3 months but within 6 months	**1,724**	886
Due after 6 months but within 1 year	**4,427**	–
Trade payables	**19,929**	39,478
Advances received	**1,046**	2,590
Other payables and accrued charges	**63,234**	98,355
Dividends payable to ordinary equity shareholders of the Company	**81,451**	861
	165,660	141,284

16. Deferred income

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

17. Capital, reverses and dividends

(a) Dividends

(i) No interim dividend attributable to the interim period has been declared.

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, of HKD7 cents (equivalent to RMB5.70 cents) per share (six months ended 30 June 2011: HKD5 cents (equivalent to RMB4.16 cents) per share)	**80,969**	60,042

(b) Equity settled share-based transactions

1,035,640 share options were exercised during the six months ended 30 June 2012 (six months ended 30 June 2011: 547,590) with a weighted average exercise price of RMB0.86 (six months ended 30 June 2011: RMB1.79) and the total number of ordinary shares increased by 1,035,640 for the six months ended 30 June 2012 (six months ended 30 June 2011: 547,590 ordinary shares).

(c) Share award scheme

In 2011, the Board approved a share award scheme. Under this share award scheme, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company. For the six months ended 30 June 2012, the Company purchased 5,848,000 shares at cash consideration of RMB16,755,000, which have not yet been granted under this share award scheme (six months ended 30 June 2011: nil).

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

	At 30 June	At 31 December
	2012	2011
	RMB'000	*RMB'000*
Contracted for	**130,476**	90,160
Authorised but not contracted for	**84,494**	–
	214,970	90,160

19. Material related party transactions

(a) Transactions with ultimate shareholder

The Group has recurring 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.

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Sales of goods to:		
Ultimate shareholder's companies	**11,538**	15,562

(b) Transactions with other related parties

During the six months ended 30 June 2012, the Group entered into agreements to acquire properties from a company related to Shanghai Zhangjiang (Group) Co., Ltd., a substantial shareholder of the Group. As at 30 June 2012, the Group made prepayment of RMB15,734,000 for the above mentioned property acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a leading medical technology company that develops, manufactures and sells high-end medical devices in The People's Republic of China (the "**PRC**"). Our products include those used for vascular diseases and disorders, such as cardiovascular, neurovascular, aortic and peripheral vascular, as well as devices for cardiology, electrophysiology ("**EP**"), orthopedics and diabetes. We serve patients and physicians in more than 1,000 hospitals throughout the PRC and in approximately 16 countries in Asia Pacific region (excluding the PRC), South America and Europe.

Our Products

Faced with the uncertain and volatile global economic environment and ongoing market weakness, our business remained challenging during the period ended 30 June 2012. However, the impact was not severe as we have already built the momentum in the past years. During the period, we continued to invest in our research and development (the "**R&D**"). We have also launched 2 new products, namely the EasyLoop™ and La Fenice®, which have been contributing to the Group's pipeline progress.

EasyLoop™–

On 6 April 2012, the State Food and Drug Administration (the "**SFDA**") has granted the approval for the launch of EasyLoop™, the circumferential pulmonary vein diagnostic catheter, which is indispensable in atrial fibrillation procedure. EasyLoop™ is used along with the 3D electrophysiological mapping system as well as the ablation catheter in order to complete the pulmonary vein isolation procedure.

EasyLoop™ is the third certificated EP product following FireMagic™ and EasyFinder™. The launch of EasyLoop™ marks our first step into the market of complex arrhythmia treatment. The Columbus™ 3D electrophysiological mapping system, Voyager™ irrigated RF ablation catheter are in the clinical trial. This series of products will help MicroPort provide a comprehensive portfolio of EP devices to physicians and patients in the future.

La Fenice® GnRH infusion pump –

On 23 March, 2012, the SFDA approved the launch of La Fenice® GnRH (gonadotropin-releasing hormone) pulse pump (the "**La Fenice®**") in the PRC. La Fenice® is the first micro-pulse GnRh infusion system used for the treatment of idiopathic hypogonadotropic hypogonadism ("**IHH**") and Kallmann Syndrome. This product was jointly developed by MicroPort Life Sciences Ltd. and Shanghai Ruijin Hospital (上海瑞金醫院). The innovative technology in La Fenice® works by bringing the benefits of home-based therapy to more patients in the PRC.

The hypothalamus within the brain governs the releasing of GnRH, which is in turn responsible for the release of Follicle-Stimulating Hormone (the "**FSH**") and Luteinizing Hormone (the "**LH**") from the pituitary gland. The release of GnRH is in pulse or short bursts, usually at 90- to 120-minute intervals, which stimulates the release of FSH and LH. The high and low frequencies of GnRH pulses lead to the release of LH and FSH. The LH and FSH then target the gonads, which induce the development and maturation of the egg cells of female, and the formation of sperms of male.

La Fenice® works through the continuous administration of GnRH which helps to "desensitize" the hypothalamus and pituitary gland. Accordingly, La Fenice® helps to mimic the hypothalamus in releasing GnRH in pulses, which is then able to stimulate the hypophysis to release FSH and LH in order to make patients recover from abnormally physiological regulated function.

La Fenice® is a battery-powered device similar to our diabetic product, the insulin pump. Its needle and syringe arrangement, designed using our advanced technology, helps supply the GnRH to the patient.

Clinical research have been held in different parts of the world since 1984, and the pulsatile GnRH therapy has been regarded as the best way for hypothalamic failure patients. The clinical results by Shanghai Ruijin Hospital also indicated that the levels of FSH and LH of the patients would rise significantly, after having treated by using pulsatile GnRH pump therapy for 3 days only. The onset of puberty of the patients would start after 12-week pulsatile GnRH pump therapy (with the LH/FSH ratio of 0.7). The secondary sexual characteristic would then appear after 24-week pulsatile GnRH pump therapy, and the testicular volume and sperm count would increase with the improvement of sexual desire.

We are pleased to announce that our four IHH patients or their wives have successful pregnancies and 2 babies were already born. This is a milestone for the IHH and Kallmann Syndrome-patients. La Fenice® is also known as "The Light of Life" because it is not only the first innovative product of MicroPort Lifesciences, but also it brings hope for those IHH and Kallmann Syndrome-patients. La Fenice® is now used by several top-tier hospitals in Beijing and Qingdao, as well as those in Hebei, Henan, Xinjiang, Shanxi, Guangdong and Guangxi provinces. We expect this will lead to benefits to the society, as well as to MicroPort.

Firebird 2 –

Our high quality stent products offering, with our Firebird 2 coronoary stent as the main product, has enabled us to be in the leading position of cardiovascular device market in the PRC. The Firebird 2, our second-generation coronary stent, remainded as the top selling product of the Group in the first half of 2012.

Firehawk –

Our remarkable third generation bio-absorbable polymer sirolimus-eluting stent, Firehwawk, has been undergoing extensive clinical studies (i.e. the pre-marketing clinical investigation study). The first 2 phases, namely the First-In-Man ("**FIM**") and the TARGET I, have been completed, and the results of TARGET I will be published in the Transcatheter Cardiovascular Therapeutics (TCT) 2012, which is the world's largest educational meeting specializing in interventional cardiovascular medicine. The third phase, the TARGET II, is already undergoing clinical follow-up and data-processing stages.

The Firehawk's pre-marketing clinical investigation, which involved a total of 1,261 patients, is the largest pre-marketing clinical study on the drug-eluting coronary stent systems conducted in the PRC. This pre-marketing clinical study is a milestone in the PRC, as it is the first-ever trail in compliance with the SFDA's guidance on Drug-Eluting Coronary Stents Systems: Clinical Studies (Draft).

On 17 March 2012, during the workshop of "Latest Clinical Trials' Announcements and First Report on Feature Research" at China Interventional Therapeutics (CIT) 2012, Dr. Run-Lin Gao from Fu Wai Hospital (阜外心血管病醫院) and the National Center for Cardiovascular Diseases of China (中國衛生部心血管病防治研究中心), presented the updated primary endpoint results of randomized controlled clinical trial of Firehawk TARGET I Long Stent Group Research Study. TARGET I Long Stent Group Research Study was performed among 50 eligible patients with average lesion length over 35 mm. Among the 77 implantations, the success rate was 100%. The late loss was 0.16±0.16mm at 9-month angiographic follow-ups (the follow-up rate was 92%). Throughout the 1-year clinical follow-up period, there were no death cases, and neither myocardial infarction nor target vessel revascularization was observed. Furthermore, the latest data indicates that the efficacy and safety of Firehawk are excellent in the treatment of ultra-long coronary lesions.

Certification and branding

We are continuing to expand our brand internationally. In April, "Mustang" and the JIVE PTCA Ballon Catheter have been successfully registered in Vietnam. The U.S. Food and Drug Administration has approved the 510k application for our Reindeer in March 2012. As aforesaid, our La Fenice® and Easyloop™ have been approved by SFDA in March 2012 and April 2012, respectively.

Our Growth

We are continuing our growth through merger and acquisition. As disclosed in the announcement dated on 25 June 2012, we made one strategic acquisition of Dongguan Kewei Medical Instrument Company Limited ("**Dongguan Kewei**"), which is dedicated to reasearching and developing, as well as manufacturing of cardiac surgery device oxygenators in extra-corporal circulation and occluders for minimally invasive intervention devices for structural heart diseases. As of 30 June 2012, the acquisition has not completed. This acquisition is able to fill the gap of product lines for cardiac surgery and structural heart diseases of MicroPort. The acquisition of Suzhou Best in November 2011 helped to expand our orthopedic devices segment, and Suzhou Best started to make profit for the six months ended 30 June 2012.

Despite a challenging and tough environment with many competitions, we have concluded the period ended for the first half of this year with 8% comparable revenue growth. We aim at bringing our innovations, technologies and services to our customers in different markets, and maintaining our leading position among the competitors in the PRC.

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.

FINANCIAL OVERVIEW

Turnover

The following turnover discussion is based on our four segments as they were structured during the period ended 30 June 2012. During the six months ended 30 June 2012, we have the turnover of approximately RMB484.9 million, with basic earnings per share of RMB0.16, and on increase compared to the turnover of approximately RMB448.8 million for the same period in 2011. Such increment was primarily attributable to the growth of the sales of non-vascular devices segments, especially the orthopedics segment and the diabetic segment.

– *Vascular Devices Segment*

Our vascular devices segment is composed of the drug-eluting stents, TAA/AAA Stent Grafts and other stents. The net revenue of the vascular devices segment for the six months ended 30 June 2012 was approximately RMB459.4 million, compared to approximately RMB444.7 million in the prior fiscal period.

Our drug-eluting stents generated revenue of approximately RMB401.9 million in the six months ended 30 June 2012, as compared to approximately RMB398.4 million over the same period in prior year. Such moderate revenue growth was due to the slowdown of the market growth of the dug-eluting stents as well as the keen competition in the PRC. Nevertheless, we are still among the domestic leading suppliers of the drug-eluting stents.

Our TAA/AAA stent grafts generated revenue of approximately RMB25.6 million in the six months ended 30 June 2012, where the sales remains stable while we maintain our market position.

The other stents generated revenue of approximately RMB31.9 million in the six months ended 30 June 2012, as compared to approximately RMB20.7 million over the same period in prior year. This was primarily due to the revenue generated from intracranial stents system increases by approximately 53.3% from approximately RMB6.7 million in the six month ended 30 June 2011 to approximately RMB10.2 million in the six months ended 30 June 2012, and the increased sales of the new consigned products.

– *EP Devices Segment*

Our EP devices segment generated revenue of approximately RMB3.6 million in the six months ended 30 June 2012, as compared to approximately RMB2.5 million over the same period in prior year. While there is still significant room for growth for our EP devices, we are pleased with the financial performance of our EP devices. This result is an indication of the increased acceptance of our EP devices by the market. It also reflects the efforts that our sales and marketing team has put into these products thus getting them off the ground.

– *Orthopedic Devices Segment*

Our orthopedic devices segments generated revenue of approximately RMB16.9 million in the six months ended 30 June 2012, while it did not generate any revenue over the same period in prior year. After the completion of acquisition of Suzhou Best in November 2011, Suzhou Best has started to contribute profit to our orthopedic devices segment.

– *Diabetic Devices Segment*

Our diabetic business has completed its restructuring process in order to optimize our product offering in this market, our organizational effectiveness, and also enhanced our market competitiveness, especially with the new launching of our La Fenice®. Our diabetic devices segment generated revenue of approximately RMB5.0 million in the six months ended 30 June 2012, as compared to approximately RMB1.6 million over the same period in prior year.

Cost of Sales

During the six months ended 30 June 2012, our cost of sales was approximately RMB71.8 million, representing approximately 3.8% increase as compared to the same period in 2011. Such slightly increase was primarily attributable to the increased sales.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, our gross profit increased by approximately 8.8% from approximately RMB379.6 million for the six months ended 30 June 2011 to approximately RMB413.1 million in the same period as of 2012. Gross profit margin is calculated as gross profit divided by turnover. Consequently, our gross profit margin increased slightly to approximately 85.2% as compared to approximately 84.6% ended 30 June 2011. The increment in gross profit margin in the first half of 2012 was mainly attributable to the declining manufacturing costs of the drug-eluting stents, which was caused by the improvement in the production technology.

Other Revenue and Other Net Income

We had other revenue of approximately RMB24.7 million and other net income of approximately RMB1.1 million in the six months ended 30 June 2012, while other revenue and other net income were approximately RMB15.4 million and approximately RMB22.5 million, respectively, in the same period of 2011. The increase of other revenue was caused by more subsidies granted by the Government, while the significant decrease of other net income was primarily attributable to the decrease of the foreign exchange gain on overseas deposits placed in the form of RMB.

Research and Development Costs

Our research and development costs decreased by approximately 10.9% from approximately RMB70.5 million for the six months ended 30 June 2011 to approximately RMB62.8 million for the six months ended 30 June 2012. The decrease was primarily due to the decreasing employee option costs engaged in R&D.

Distribution Costs

Distribution costs increased by approximately 5.5%, from approximately RMB61.5 million for the six months ended 30 June 2011 to approximately RMB64.9 million for the six months ended 30 June 2012, which was primarily driven by the increase of marketing expenses of our attendance at conference and seminars for our products promotion.

Administrative Expenses

Administrative expenses increased by approximately 13.7% from approximately RMB41.0 million in the six months ended 30 June 2011 to approximately RMB46.6 million in the six months ended 30 June 2012. The increase was primarily driven by the provision of doubtful debts based on our evaluation on the recoverability of trade debtors.

Finance Costs

Finance costs decreased from approximately RMB0.9 million in the six months ended 30 June 2011 to approximately RMB0.3 million in the six months ended 30 June 2012. The decrease was mainly due to the reduction of the interest payments as the result of loan repayment.

Profit before Taxation

Profit before taxation increased from approximately RMB238.5 million for the six months ended 30 June 2011 to approximately RMB263.9 million for the six months ended 30 June 2012. The increase was primarily attributable to the increase in total revenue.

Income Tax

Income tax increased from approximately RMB34.9 million in the six months ended 30 June 2011 to approximately RMB41.2 million in the six months ended 30 June 2012. The increase of our effective tax rate from approximately 14.6% for the six months ended 30 June 2011 to approximately 15.6% for the six months ended 30 June 2012 was attributable to the decrease in other net income of our company, which is not subject to tax on income.

Profit for the Period and Net Profit Margin

As a result of the foregoing factors, profit for the period increased by approximately 9.4% from approximately RMB203.6 million in the six months ended 30 June 2011 to approximately RMB222.7 million in the six months ended 30 June 2012, and net profit margin increased slightly from approximately 45.4% in the six months ended 30 June 2011 to approximately 45.9% in the six months ended 30 June 2012.

Liquidity and Financial Resources

As of 30 June 2012, we had approximately RMB289.9 million of cash and cash equivalents on hand, as compared to approximately RMB1,095.2 million as of 31 December 2011. 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 2012 was approximately RMB3.7 million, as compared to approximately RMB5.7 million as of 31 December 2011. As at 30 June 2012, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 0.0017, as compared to 0.0027 as at 31 December 2011.

Working Capital

Our working capital as at 30 June 2012 was approximately RMB1,629.6 million, as compared to approximately RMB1,621.1 million as at 31 December 2011.

Capital Structure

The capital of the Group comprises of only ordinary shares. As at 30 June 2012, the total number of the ordinary shares of the Group in issue was 1,421,518,500 shares (31 December 2011: 1,420,482,860), within which, 5,848,000 shares were purchased back in the six months ended 30 June 2012 through trustee under the share award scheme and ungranted (31 December 2011: nil). The total equity attributable to the owners of the Company was approximately RMB2,255.1 million (31 December 2011: approximately RMB2,115.2 million).

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) a significant portion of the IPO proceeds received by the Company were mostly exchanged into RMB. Given the Company has adopted the USD as its functional currency, 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 approximately RMB1.4 million, as compared to approximately RMB22.5 million for the six months ended 30 June 2011. The Group does not employ any financial instruments for hedging the foreign exchange exposure.

Capital Expenditure

During the period under review, the Group's total capital expenditure amounted to approximately RMB114.2 million (30 June 2011: approximately RMB44.9 million), which was used in (i) the construction and purchase of buildings, (ii) the acquisition of equipment and machinery; and (iii) the capitalization of the R&D expenditure for Firehawk.

Charge on Assets

As at 30 June 2012, the Group had pledged its building held for own use with a net book value of approximately RMB26.0 million (31 December 2011: approximately RMB26.4) million) for the purpose of securing a long-term loan with a carrying value of approximately RMB3.7 million (31 December 2011: approximately RMB3.7 million).

Contingent Liabilities

As at 30 June 2012, the Group had no material contingent liabilities.

HUMAN RESOURCES

As at 30 June 2012, the Group employed 1,420 employees, as compared to 1,164 employees as at 30 June 2011. The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees. A share option scheme and a share award scheme have 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 provided training courses to its employees which are managed by its human resources department.

PROSPECTS

Given the current unstable and uncertain global economic conditions resulting for the soverign debt crisis in the Eurozone, the weak economic growth of some developed countries, we are expecting continuous challenges in the second half of 2012.

– *Innovation Focus:*

Building on our unqiue experiences of our R&D team, we will continue to improve, enrich and diversify our existing products and our products portfolios. Our development pipeline is full of innovations that we expect will satisfy our customers, and most important, help patients in the PRC and around the world live healthier and longer lives.

– *Opportunities Focus:*

Our another key driver for growth and success is the continuation of the strengthening our fundementals in different product segments as well as new businesses. We intend to continue to look for additional strategic acquisitions of businesses or technologies, which are complementary to our existing businesses. Our acquisition of Suzhou Best in 2011 has made profit in the first half of 2012 and has proved it as a successful acquisition. The acquisition of Dongguan Kewei is ongoing, and we are confident in our chosen strategic direction.

Global economic conditions remained challenging in the second half of 2012, with low consumer confidence. This trend may particularly affect our performance in the overseas markets.

Looking ahead, while we are concerned about the economic environment, we are not waiting for broader economic conditions to improve to deliver increased value to our shareholders. All of us at MicroPort are fully committed to deliver consistent above market growth in each of our geographic segments and product categories. To succeed, we will maintain a rigorous focus on our strategic priorities, including products innovation, an ongoing emphasis on developing in overseas markets and strategic acquisitions.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2012, 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 SUBSIDIARIES AND ASSOCIATED COMPANIES

Save for those disclosed in the announcement dated on 25 June 2012 regarding the entering into of the equity transfer agreement between MP Shanghai, a wholly-owned subsidiary of the Company, and Mr. Wang Anqin, for the purchase of 100% equity interest in Dongguan Kewei, there were no significant investment held, material acquisition or disposal of subsidiaries for the period ended 30 June 2012. Dongguan Kewei is a PRC research and development manufacturer of cardiac surgery device oxygenators in extra-corporal circulation and occluders for minimally invasive intervention devices for structural heart diseases.

Details of the acquisition of Dongguan Kewei were disclosed in the announcement dated on 25 June 2012, and the acquisition of Dongguan Kewei has not completed yet as of 30 June 2012.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the six months ended 30 June 2012, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2012, the Company applied with the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

NOMINATION COMMITTEE

The Company has established a nomination committee (the "**Nomination Committee**") in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The purpose of this Nomination Committee is to identify and nominate suitable candidates for the appointment of the Directors and making recommendations to the Board on succession planning for the Directors.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "**Remuneration Committee**") in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The purposes of this Remuneration Committee is to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management.

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 2012 with the management of the Company.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

CHANGED TO INFORMATION IN RESPECT OF DIRECTORS

In the six months ended 30 June 2012 and up to the date of this announcement, there were no changes to the information required to be disclosed by the directors of the Company pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Rule Governing the Listing of Securities on the Stock Exchange of the Hong Kong Limited where applicable.

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 and Mr. Lei Ding; and the independent non-executive Directors are Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu.

GENERAL INFORMATION

The Group's consolidated financial statements for the six months ended 30 June 2012 have been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standards on Review Engagements 2410 issued by the Hong Kong Institute of Certified Public Accountants.

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

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, The PRC, 27 August 2012

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 and Mr. Lei Ding; and the independent non-executive Directors are Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu.