



**MicroPort Scientific Corporation**

# INTERIM REPORT 2013

**微創醫療科學有限公司**

(incorporated in the Cayman Islands with limited liability)  
(Stock Code:00853)



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# CORPORATE INFORMATION

## DIRECTORS

### EXECUTIVE DIRECTOR

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

### NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida  
Mr. Hiroshi Shirafuji  
Mr. Lei Ding

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## COMPANY SECRETARY

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

## AUTHORIZED REPRESENTATIVES

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

Mr. Zezhao Hua (*Chairman*)  
Mr. Lei Ding  
Dr. Guoen Liu

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

501 Newton Road  
Zhangjiang Hi-Tech Park  
Shanghai 201203  
The PRC

## PLACE OF BUSINESS IN HONG KONG

Level 54  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## AUDITOR

KPMG, *Certified Public Accountants*

## COMPLIANCE ADVISOR

TC Capital Asia Limited

## SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## COMPANY WEBSITE

[www.microport.com.cn](http://www.microport.com.cn)

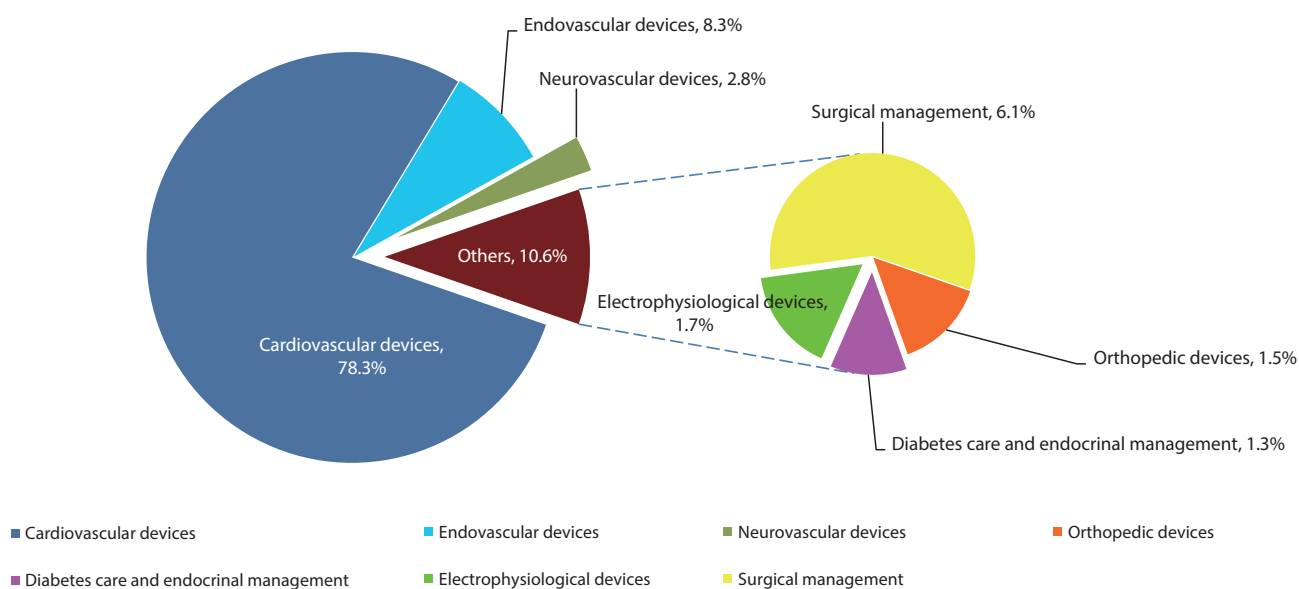
## PRINCIPAL BANKERS

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

## FINANCIAL HIGHLIGHTS

Six months ended 30 June			
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	Change %
Turnover	421,922	484,916	-12.99
Gross Profit	342,416	413,083	-17.11
Profit for the period	92,110	222,671	-58.63
Earnings per share –			
Basic (RMB)	0.07	0.16	-56.25
Diluted (RMB)	0.06	0.16	-62.50

**Revenue Analysis For The Six Months Ended 30 June 2013**  
**By Segments**



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

We are a leading medical technology company that develops, manufactures and sells high-end medical devices in the PRC. Our products include those used for vascular diseases and disorders, such as cardiovascular, endovascular, neurovascular, as well as devices for electrophysiology (the “EP”), orthopedic, diabetes care and endocrinal management, and surgical management. We serve patients and physicians in more than 1,200 hospitals throughout the PRC and over 20 countries in the Asia Pacific region (excluding the PRC), South America and Europe.

Faced with the uncertain and volatile global economic environment, industrial wide continuous pricing pressure and ongoing market weakness, our business remained challenging during the six months ended 30 June 2013. We have recorded a material decrease in our unaudited net profit for the six months ended 30 June 2013 as compared with that for the six months ended 30 June 2012. The decrease in the unaudited net profit was principally attributable to (1) the turnover decrease from the business of drug-eluting stent (“DES”) by 24.3% from RMB401.9 million for the six months ended 30 June 2012 to RMB304.2 million for the six months ended 30 June 2013, which was owing to (i) the prices set by provincials’ tender lowering unit selling prices of the DES; (ii) more domestic manufacturers entering the DES market which resulted in more intense competition; and (iii) slower growth of percutaneous coronary intervention procedures; (2) our research and development (the “R&D”) costs increased by 34.2% from RMB62.8 million for the six months ended 30 June 2012 to RMB84.3 million for the six months ended 30 June 2013, the significantly increased costs were due to our continuous investment in R&D and launch of new R&D projects; and (3) a significant increase in other operating costs from RMB0.3 million for the six months ended 30 June 2012 to RMB43.8 million for the six months ended 30 June 2013. The increase was primarily due to: (i) the transaction costs for a contemplated acquisition totalled RMB18.3 million; and (ii) the impairment loss of RMB20.5 million for the goodwill associated with a business acquisition has completed in prior years.

Nevertheless, both of our endovascular devices segment and neurovascular devices segment enjoyed approximately 15% organic growth during the six months ended 30 June 2013, and we also remain in the market leader position in these business segments. The revenue generated from our EP devices segment has increased significantly around 102.8% for the six months ended 30 June 2013 compared to the same period of 2012. After the completion of acquisition of Dongguan Kewei Medical Instrument Co., Ltd. (“**Dongguan Kewei**”) in September 2012, our segment of surgical management has started generating revenue and recorded a promising result during the six months ended 30 June 2013.

Meanwhile, we are striving to continue our growth through mergers and acquisitions. As disclosed in the announcement dated 25 June 2013, the Company, MicroPort Medical B.V., a wholly-owned subsidiary of the Company, and the Wright Medical Group, Inc. (the “**Wright**”) entered into the asset purchase agreement on 19 June 2013, pursuant to which MicroPort Medical B.V., has agreed to acquire from Wright its assets of OrthoRecon business, which consist of Wright’s worldwide hip and knee orthopedic reconstruction business, and to assume the liabilities of the business. The acquisition is in line with the development strategies of the Group and it will be able to bring long-term and strategic benefits to the Company, which includes: (i) broadening products offering with a full orthopedic product portfolio which would include the China Food and Drug Administration (the “**CFDA**”) approved products for the hip and knee, spine, and trauma markets. It would allow the Company to diversify its current DES franchise significantly. It is expected that upon completion of the acquisition, the Company’s DES revenue as a percentage of its entire revenue base would decline from approximately 80% to 36% of revenues; (ii) synergistic effects between the Company’s current products offering and the Wright’s orthopedic products; (iii) enhancing geographical coverage approximately 95% of the Company’s revenues are currently derived from our PRC operations. The proposed acquisition will further allow the Company to internationalise its revenue base with a presence in the United States (the “**U.S.**”), Europe, Japan and Latin America markets; and (iv) expanding the interests of institutional investors in the Company.

We strongly believe our continuous investment in R&D are crucial for long-term sustainable growth and developing comprehensive product pipeline.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUR PRODUCTS

During the period under review, we continued to invest in our R&D.

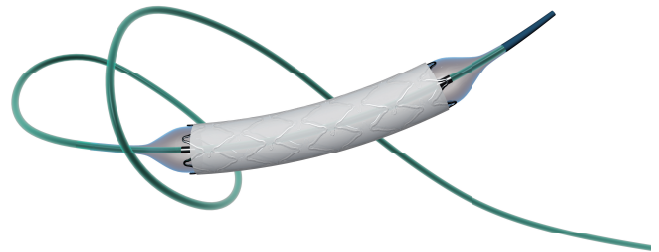
### WILLIS® INTRACRANIAL STENT GRAFT SYSTEM –

On 5 February 2013, our WILLIS® intracranial stent graft system (the “WILLIS®”) received the approval from the CFDA. WILLIS® is the first-of-its-kind product for the treatment of intracranial aneurysms with launch approval in the PRC.

WILLIS® is composed of the coated stent graft and a delivery system, while the coated stent graft is made of cobalt-based alloy stent with polytetrafluoroethylene (the “PTFE”) membrane covering.

Intracranial aneurysm is a cerebrovascular disorder in which weakness in the wall of a cerebral artery or vein causes a localized dilation or ballooning of the blood vessel. The incidence rate of intracranial aneurysm is about 2% to 4%, which ranks at the third place in cerebrovascular accident. Once the aneurysm ruptures, the fatality and disability rates are approximately 40% and 33%, respectively. Compared with the traditional method of stent-assisted coil embolization treatment, the procedure of vascular reconstruction using WILLIS® can effectively shunt the blood flow and keep it off of the aneurysm wall. WILLIS® features superior efficacy and safety. Accordingly, WILLIS® provides better treatment option for patients with intracranial aneurysm.

The prospective, multi-center, controlled clinical study of WILLIS® had enrolled 87 patients across 3 medical centers in the PRC. The 6-months follow-up clinical result demonstrated that the occlusion rate is far better than coil embolization treatment. In addition, the research report titled “MRA Imaging of Cerebral Aneurysms and its related blood vessels, and critical intervention techniques used in clinical studies” which is based on the clinical research of WILLIS®, obtained the First Class Award of Science and Technology Progress issued by the Ministry of Education of the PRC in 2012.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CASTOR BRANCHED STENT-GRAFT SYSTEM-

On 8 April 2013, our next generation of Castor Branched Aortic Stent Graft and Delivery System (the “**Castor branched stent-graft system**”) has completed the first clinical implantation in Changhai Hospital (affiliated to The Second Military Medical University in the PRC), which symbolized the official kickoff of the pre-market clinical study for the Castor branched stent-graft system.

During the past decade, the incidence of thoracic dissection has been increasing in the PRC. Dissection involving left subclavian artery (LSA) is a relative contraindication for endovascular treatment. Endovascular repair with subclavian occlusion may cause adverse events of hand/upper limb ischemia and blood flow retrogradation in the ipsilateral vertebral artery when the arm is exercised. The advent of patient-specified Castor branched stent-graft system is a crucial milestone in endovascular repair to treat challenging aortic arch disease.

The clinical trials for the Castor branched stent-graft system is the world’s first large-scaled, prospective, and multi-center clinical study for branched thoracic stent graft. It has been successfully elected as one of the projects of “National High-Tech Research and Development Plan (863 Program)” (國家高技術研究發展計劃(863計劃)) and the 12th Five-Year Plan.



## FIREHAWK® –

Our third generation bio-absorbable polymer sirolimus-eluting stent, Firehawk® Rapamycin Targeted Eluting Coronary Stent (the “**Firehawk®**”), has already completed a series of clinical trials for CFDA approval in the PRC, including the First-in-Man (the “**FIM**”) study, TARGET I randomized controlled trial (the “**TARGET I**”) and TARGET II single clinical-registered study (the “**TARGET II**”) (collectively the “**TARGET**”).

During the Congress of EuroPCR 2013, an official congress of the European Association of Percutaneous Cardiovascular Interventions (the “**EAPCI**”), Mr. Bo Xu, the professor from the Chinese National Center for Cardiovascular Disease Fuwai Hospital, presented the latest report on Firehawk® titled “Renaissance of DES, New Generation of Sirolimus-Eluting Stent: The Firehawk® Stent-MicroPort”.

Based on the angiographic and clinical follow-up results of comparing Firehawk® with conventional everolimus-eluting stent with permanent polymer, a thesis titled “A randomized comparison of a novel abluminal groove-filled biodegradable polymer sirolimus-eluting stent with a durable polymer everolimus-eluting stent: clinical and angiographic follow-up of the TARGET I trial” was published by an international well-known journal, namely EuroIntervention, which is an official journal of the EAPCI and EuroPCR.

## FIREBIRD 2 –

Compared to the same period of 2012, our business of DES recorded a decrease in turnover for the six months ended 30 June 2013. Such decrease was principally attributable to (i) the prices set by provincials’ tender lowering unit selling prices of the DES; (ii) more domestic manufacturers entering the DES market which resulted in more intense competition; and (iii) slower growth of percutaneous coronary intervention procedures.



# MANAGEMENT DISCUSSION AND ANALYSIS

Despite having a decrease in total turnover of the Group, our high quality stent products offering, with our Firebird 2 coronary stent as the main product, has enabled us to be in the leading position of cardiovascular device market in the PRC. The Firebird 2, our second-generation coronary stent, remained as our top selling product in the first half of 2013.

## FIREFORCE BALLOON INFLATION DEVICE –

On 4 April 2013, our Fireforce Balloon Inflation Device received the launch approval from Thailand’s Ministry of Public Health (the “MOPH”). It is the first-ever approval granted by an international regulatory authority on our balloon inflation devices.

The kit of Fireforce Balloon Inflation Device primarily includes a pressure gauge, a release handle, a syringe, connecting parts, an extension tube and a holder. It is a medical device which is intended for the inflation of medical balloon dilatation catheter to dilate blood vessels or release stents. Fireforce Balloon Inflation Device is designed for rapid and precise control of the inflation process of percutaneous transluminal coronary angioplasty balloon catheter and can also be used in other interventional procedures. Its clear pressure gauge panel allows physicians to read and monitor the pressure easily in the clinical environment.



## DISPOSABLE CERVICAL DILATOR –







On 3 May 2013, our disposable cervical dilator, a class II medical device, received the launch approval from Jiangxi Province Food and Drug Administration of the PRC.

Cervical dilator is a surgical apparatus designed to dilate cervix of uterus, which can be used in hysteroscopy examination and operation, induced abortion, diagnostic curettage, intrauterine contraceptive device removing and other examinations or operations. Our disposable cervical dilator is made of polyvinyl acetate (“PVA”) material, which is characteristic of outstanding moisture absorption performance. Compared to traditional cervical dilators, our product significantly relieves patients’ pain during the cervical dilatation. In addition, it helps to decrease the chances of uterus damages, complications and risk of adverse reactions.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CERTIFICATION AND BRANDING

During the six months ended 30 June 2013, we have filed 38 trademark applications, including 14 applications in the PRC and 24 applications overseas, such as European Union (the "EU"), U.S., Argentina, India, and Colombia. The following 9 trademarks have been approved during the period under review:

No.	Trademark	Country/Region	Registration No.	Nice Classification	Period of validity
1		PRC	10137058	10	2013.01.07-2023.01.06
2		PRC	10224650	10	2013.01.28-2023.01.27
3		PRC	10318110	10	2013.02.21-2023.02.20
4		PRC	10354145	10	2013.03.07-2023.03.06
5		PRC	10443080	10	2013.03.28-2023.03.27
6		PRC	10443083	10	2013.03.28-2023.03.27
7		PRC	10443086	10	2013.03.28-2023.03.27
8		PRC	10436620	10	2013.03.28-2023.03.27
9		EU	11550217	10	2013.02.06-2023.02.06

We have been expanding our brand domestically and internationally. During the six months ended 30 June 2013, we have received the following certifications in the PRC and other countries.

No.	Product	Country/Region	Registration No.	Period of validity
1	動脈導管未閉封堵器	PRC	國食藥監械(准)字2013第3770019號	2013.01.13-2017.01.12
2	一次性胰島素泵用輸注器	PRC	國食藥監械(准)字2013第3660208號	2013.02.06-2017.02.05
3	繞動脈止血器	PRC	滬食藥監械(准)字2013第2540303號	2013.02.08-2017.02.07
4	一次性胰島素泵用儲液器	PRC	國食藥監械(准)字2013第3540261號	2013.02.22-2017.02.21
5	球囊擴張壓力泵(I類)	PRC	蘇蘇食藥監械(准)字2013第1100114號	2013.03.21-2017.03.20
6	顱內覆膜支架系統	PRC	國食藥監械(准)字2013第3460179號	2013.04.23-2017.02.04
7	一次性使用子宮頸擴張器	PRC	贛九食藥監械(准)字2013第2660075號	2013.05.03-2017.05.02
8	HT	Ecuador	DM-1256-10-06	2013.04.01-2016.10.16
9	FB2	Thailand	CHN5609492	2013.04.05-2014.03.15
10	Fireforce		CHN5600978	2013.04.04-2014.09.16
11	HB		CHN5601631	2013.06.13-2014.03.16
12	Tango	India	MD-1254	2013.05.01-2016.04.30

# MANAGEMENT DISCUSSION AND ANALYSIS

## MERGERS AND ACQUISITIONS

We are continuing our growth through mergers and acquisitions. As disclosed in the announcement dated 25 June 2013, the Company, MicroPort Medical B.V., a wholly-owned subsidiary of the Company, and the Wright entered into the asset purchase agreement on 19 June 2013, pursuant to which MicroPort Medical B.V., has agreed to acquire from Wright its assets of OrthoRecon business, which consist of Wright's worldwide hip and knee orthopedic reconstruction business, and to assume the liabilities of the business.

Wright is incorporated in the State of Delaware in the U.S., and its shares are listed on the Nasdaq Global Select Market (symbol: WMGI). Wright and its subsidiaries are principally engaged in the manufacturing and distribution of orthopedic implants and instruments worldwide. Its portfolio of products primarily includes (i) large joint implants for the hip and knee; (ii) extremity implants for the shoulder, elbow, hand, wrist and foot; and (iii) biologic products such as bone graft substitutes.

Wright's OrthoRecon business has a well-established global presence which principally offers orthopedic medical devices. Its products are primarily used to replace or repair knee, hip and other joints and bones that have deteriorated or have been damaged owing to diseases or injuries. The Wright's OrthoRecon business has extensive product lines, including but not limited to, Wright's unique ceramic total hip system and other innovative offerings featuring advanced hard bearing surfaces. For its financial year of 2012, approximately 60% of its revenue was generated outside the U.S. market.

The Board believes that the aforesaid acquisition is in line with the development strategies of the Group and it will be able to bring long-term and strategic benefits to the Company, which include: (i) broadening products offering; (ii) synergistic effects between the Company's current products offering and the Wright's orthopedic products; (iii) enhancing geographical coverage; and (iv) expanding institutional investors' interests in the Company.

As of 30 June 2013, the acquisition of the Wright's OrthoRecon business has yet been completed, and is expected to be completed by second half of 2013.

## FINANCIAL REVIEW

Facing a challenging and tough environment with many competitions, we have concluded the six months ended 30 June 2013 with a 12.99% comparable turnover decrease. Nevertheless, 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 as well as in other countries.

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

## TURNOVER

The following discussion is based on our seven major business segments during the six months ended 30 June 2013. During the period under review, we have a turnover of RMB421.9 million, with basic earnings per share of RMB0.07, a decrease from RMB484.9 million recorded in the same period of 2012. Such decrement was primarily attributable to the decrease in the sales of cardiovascular devices.

### – CARDIOVASCULAR DEVICES SEGMENT

Our cardiovascular devices segment generated revenue of RMB330.5 million in the six months ended 30 June 2013, a decrease of 21.1% compared to RMB418.8 million over the same period of 2012. Such decrease was mainly attributable to the decrease in the business revenue from DES owing to (i) the prices set by provincials' tender lowering unit selling prices of the drug-eluting stents; (ii) more domestic manufacturers entering the DES market which resulted in more intense competition; and (iii) slower growth of percutaneous coronary intervention procedures. Nevertheless, we are still among the domestic leading suppliers of the DES in the first half of 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## – ENDOVASCULAR DEVICES SEGMENT

Our endovascular devices segment generated revenue of RMB34.9 million in the six months ended 30 June 2013, an increase of 15.2% compared to approximately RMB30.3 million over the same period of 2012. Such growth was mainly attributable to the organic growth of Thoracic Aortic Aneurysm (“TAA”)/Abdominal Aortic Aneurysm (“AAA”) Stent Graft Systems and increasing market recognition of our stent graft systems in surgical operation.

## – NEUROVASCULAR DEVICES SEGMENT

Our neurovascular devices segment generated revenue of RMB11.7 million in the six months ended 30 June 2013, an increase of 14.7% compared to RMB10.2 million over the same period of 2012. Such growth was mainly attributable to the steady increase in the sales volumes of APOLLO and the launching of our new product WILLIS®. APOLLO is the first intracranial arterial stent system produced in the PRC.

## – EP DEVICES SEGMENT

Our EP devices segment generated revenue of RMB7.3 million in the six months ended 30 June 2013, an increase of 102.8% compared to RMB3.6 million over the same period of 2012. We are pleased with the financial performance of our EP devices. Such significant increase was mainly attributable to (i) our EP devices have obtained further affirmation in the marketplace; and (ii) we have contracted with more customers for our EP devices during the period under review.

## – ORTHOPEDIC DEVICES SEGMENT

Our orthopedic devices segment generated revenue of RMB6.4 million in the six months ended 30 June 2013, a decrease of 62.1% compared to RMB16.9 million over the same period of 2012. Such decrease was mainly attributed by the impact of (i) ceased the sales of old series of our one leading product in 2013 as the result of new product development; and (ii) we have not yet obtained the registration certificate of the new product which is required for selling the new product in the market.

## – DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT

Our diabetes care and endocrinal management segment generated revenue of RMB5.4 million in the six months ended 30 June 2013, an increase of 8.0% compared to RMB5.0 million over the same period of 2012. The growth was mainly resulted in the steady increased sales of La Fenice® gonadotropin-releasing hormone infusion pump owing to its further affirmation in the marketplace.

## – SURGICAL MANAGEMENT SEGMENT

Our segment of surgical management generated revenue of RMB25.8 million in the six months ended 30 June 2013 as compared to nil over the same period of 2012. After the completion of acquisition of Dongguan Kewei in September 2012, our segment of surgical management has started generating revenue and recorded a promising result during the first half of 2013.

## COST OF SALES

During the six months ended 30 June 2013, our cost of sales was RMB79.5 million, representing a 10.7% increase as compared to RMB71.8 million over the same period in 2012. Such increase was primarily attributable to the cost of Dongguan Kewei, which was acquired in September 2012, was consolidated in current period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, our gross profit decreased by 17.1% from RMB413.1 million for the six months ended 30 June 2012 to RMB342.4 million in the same period as of 2013. Gross profit margin is calculated as gross profit divided by turnover. Our gross profit margin decreased to 81.2% as compared to 85.2% for the six months ended 30 June 2012. The decrement in gross profit margin in the first half of 2013 was mainly attributable to (i) the prices set by provincials' tender lowering unit selling prices of DES; and (ii) proportion of the sale of low-margin products increased.

## OTHER REVENUE AND OTHER NET INCOME

We had other revenue of RMB15.8 million and other net income of RMB3.1 million for the six months ended 30 June 2013, while other revenue and other net income were RMB24.7 million and RMB1.1 million, respectively, in the same period of 2012. The decrease in other revenue was caused by the decrease in interest income and grants from the PRC Government, while the increase in other net income was primarily attributable to the increase in foreign exchange gain on overseas deposits placed in the form of RMB.

## RESEARCH AND DEVELOPMENT COSTS

Our R&D costs increased by 34.2% from RMB62.8 million for the six months ended 30 June 2012 to RMB84.3 million for the six months ended 30 June 2013. The increase was primarily due to continuous investment in R&D, and we have also commenced several new research and development projects in the first half of 2013.

## DISTRIBUTION COSTS

Distribution costs decreased slightly by 0.6%, from RMB64.9 million for the six months ended 30 June 2012 to RMB64.5 million for the six months ended 30 June 2013. We have been keeping stable input in the market during the period under review.

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by 11.6% from RMB46.6 million for the six months ended 30 June 2012 to RMB52.0 million for the six months ended 30 June 2013. The increase was mainly attributable to (i) the administrative expenses incurred by Dongguan Kewei, which was consolidated in the period under review; and (ii) the additional intangible assets' amortization mainly arising from the acquisition of products licences of Dongguan Kewei in September 2012 and Winning Forward in November 2012.

## OTHER OPERATING COSTS

Other operating costs increased from RMB0.3 million for the six months ended 30 June 2012 to RMB43.8 million for the six months ended 30 June 2013. The increase was primarily due to (i) the transaction costs for a contemplated acquisition totalled RMB18.3 million; and (ii) the impairment loss of RMB20.5 million for the goodwill associated with a business acquisition completed in prior years.

## FINANCE COSTS

Finance costs increased from RMB0.3 million for the six months ended 30 June 2012 to RMB1.5 million for the six months ended 30 June 2013. The increase was mainly driven by the interest expenses of financial liabilities incurred from the acquisition of Dongguan Kewei.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INCOME TAX

Income tax decreased from RMB41.2 million for the six months ended 30 June 2012 to RMB23.2 million for the six months ended 30 June 2013. The decrease in the Group's profit before tax was primarily due to the decrease in profit before tax of the PRC subsidiaries and the decrease in the Company's profit. This decrease in the Company's profit resulted in an increase in our effective tax rate from 15.6% for the six months ended 30 June 2012 to 20.1% for the six months ended 30 June 2013.

## LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2013, we had RMB662.2 million of cash and cash equivalents on hand, as compared to RMB413.1 million as of 31 December 2012. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damages to the Group's reputation.

## BORROWING AND GEARING RATIO

Total borrowing of the Group as at 30 June 2013 was RMB3.2 million, as compared to RMB23.2 million as of 31 December 2012. As at 30 June 2013, the gearing ratio (calculated as total loans and bank borrowings divided by total equity) of the Group remained at a low level of 0.1%, as compared to 1% as 31 December 2012.

## WORKING CAPITAL

Our working capital as at 30 June 2013 was RMB1,330.6 million, as compared to RMB1,401.4 million as at 31 December 2012.

## FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from the sales and purchases of its PRC subsidiaries which gave rise to receivables and payables that are denominated in a foreign currency (mainly in USD), and the Company's deposit denominated in RMB. Given the Company has adopted USD as its functional currency, whilst its PRC subsidiaries' functional currencies are in RMB, therefore 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 RMB2.1 million, as compared to RMB1.4 million for the six months ended 30 June 2012. 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 RMB157.5 million (30 June 2012: approximately RMB114.2 million), which was used in (i) the construction of buildings; (ii) the acquisition of equipment and machinery; and (iii) the expenditures on R&D projects which were eligible for capitalization as intangible assets.

## CHARGE ON ASSETS

As at 30 June 2013, the Group had pledged its building held for own use with a net book value of approximately RMB25.2 million (31 December 2012: approximately RMB25.6 million) for the purpose of securing a long-term loan with a carrying value of approximately RMB3.2 million (31 December 2012: approximately RMB3.2 million).

## CONTINGENT LIABILITIES

As at 30 June 2013, the Group had no material liabilities or any outstanding contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES

As at 30 June 2013, the Group employed approximately 1,800 employees, as compared to 1,419 employees as at 30 June 2012. The Group offered competitive salary package, as well as discretionary bonuses and contributions 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

Despite of the current unstable and uncertain global economic conditions, and increasingly competitive pressure from multinational enterprise, we accept this challenge and intend to create remarkable financial returns in our business and to the shareholders of the Company (the **"Shareholders"**) in time of difficulty.

### 1. STRATEGIC ACQUISITION

Majority of our revenues are currently derived from our PRC operations. Accordingly, we believe that strategic acquisition will enable us to diversify our existing products portfolio and broaden our sources of income. Our acquisition of Dongguan Kewei in 2012 has made profit in the first half of 2013 and has proved it as a successful acquisition. The acquisition of Wright is ongoing, and we are confident in our chosen strategic direction.

The acquisition of Wright will provide us the opportunity to participate in a leading multi-brand global medical device company based in the PRC, and we believe it will further enhance our geographical coverage.

We believe that such strategic acquisition is in line with the development strategies of the Group and it will bring long-term and strategic benefits to the Company.

### 2. BROADENING OUR PRODUCT OFFERING

The Company has been deriving most of its revenue from the cardiovascular stent business segment and enjoying the leading market share for the DES in the PRC for a period of time. Accordingly, we will diversify our products portfolio through our own R&D to include other cardiovascular and neuro-/endovascular products as well as EP, orthopedic, diabetes care and endocrinal management, and surgical management products.

To improve, enrich, and diversify our products, we will continue to invest in our R&D team. Introducing innovative products to our portfolio will further broaden our existing product offerings. We expect to provide lower cost, high quality medical instruments to serve our surgeon customers, and most importantly, help patients in all geographic markets live healthier and longer.

# OTHER INFORMATION

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES (THE “SHARES”) AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2013, interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) held by the Directors and chief executives of the Company which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

### 1. INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES OF THE COMPANY

Name of Director/Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of total number of Shares in issue (%)
Chang Zhaohua	10,000,000	1	Beneficial owner	Long position	0.71 %

Notes:

- (1) Chang Zhaohua is interested in the underlying Shares of the Company by virtue of the options granted to him under the share option scheme of the Company. For further details, please refer to the below section headed “Share Option Scheme”.

Save as disclosed above, as at 30 June 2013, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2013, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:



# OTHER INFORMATION

## INTERESTS AND SHORT POSITION IN THE SHARES

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
Otsuka Holding Co. Ltd.	468,994,120	1	Interest of controlled corporation	Long position	33.30
Otsuka Medical Devices Co., Ltd.	468,994,120	1	Beneficial owner	Long position	33.30
Shanghai Zhangjiang Science and Technology Investment Co.	285,748,050	2	Interest of controlled corporation	Long position	20.29
Shanghai Zhangjiang (Group) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.29
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.29
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.29
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.29
Shanghai ZJ Hi-Tech Investment Corporation	285,748,050	2	Interest of controlled corporation/Beneficial owner	Long position	20.29
Shanghai ZJ Holdings Ltd.	285,748,050	2	Interest of controlled corporation	Long position	20.29
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	2	Beneficial owner	Long position	15.33
Shanghai WeTron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	15.42
WeTron Capital Ltd.	217,110,000	3	Beneficial owner	Long position	15.42
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	15.42
Gao Yang Investment Corp.	75,233,720	4	Interest of controlled corporation/Beneficial owner	Long position	5.34
Shen Yao Fang	75,233,720	4	Interest of controlled corporation	Long position	5.34

# OTHER INFORMATION

## Notes:

- (1) Otsuka Holdings Co. Ltd. holds the entire issued share capital of Otsuka Medical Devices Co., Ltd. and therefore, is deemed to be interested in the same number of Shares held by Otsuka Medical Devices Co., Ltd..
- (2) Shanghai Zhangjiang (Group) Co., Ltd. is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Shanghai Pudong New Area People's Government. Shanghai Zhangjiang (Group) Co., Ltd. holds 100% interest in Shanghai Zhangjiang Science and Technology Investment Co., which in turn holds 100% interest in Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited, which in turn holds 50% interest in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai Zhangjiang (Group) Co., Ltd. also holds 53.58% interest in Shanghai Zhangjiang Hi-Tech Park Development Co. Ltd., which in turn holds 100% interest in Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd., which in turn holds 100% interest in Shanghai ZJ Holdings Limited, which in turn holds 50% in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai ZJ Hi-Tech Investment Corporation holds 100% interest in each of Shanghai Zhangjiang Health Solution Holdings Limited, Shanghai Zhangjiang Health Solution Investment Limited and Shanghai Zhangjiang Health Solution Industry Limited. The interest in 285,748,050 Shares by these companies relates to the same block of Shares by virtue of the long position in the Shares held by the following companies:

Name of Controlled Corporation	No. of Shares	Percentage of total number of Shares in issue (%)
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.50
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	15.33
Shanghai Zhangjiang Health Solution Investment Limited	53,398,570	3.79
Shanghai Zhangjiang Health Solution Industry Limited	9,423,280	0.67
Total	285,748,050	20.29

- (3) Maxwell Maxcare Science Foundation Limited holds 79% of Shanghai WeTron Capital Corp. who in turn is interested in 94.19% of WeTron Capital Limited. Therefore, Maxwell Maxcare Science Foundation Limited, Shanghai WeTron Capital Corp. and WeTron Capital Limited are interested in the same 217,110,000 Shares held by WeTron Capital Limited.
- (4) Shen Yao Fang holds the entire issued share capital of Gao Yang Investment Corp., which in turns holds 52,750,000 Shares. Gao Yang Investment Corp. is also interested in the entire issued share capital of Q1 Capital Corporation, which in turns holds 22,483,720 Shares. Shen Yao Fang and Gao Yang Investment Corp. is therefore deemed to be interests in the same 75,233,720 Shares held by Gao Yang Investment Corp. and Q1 Capital Corporation.

Save as disclosed above, and as at 30 June 2013, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

# OTHER INFORMATION

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

As at 30 June 2013, the Company has repurchased a total of 2,279,000 Shares of the Company on the Stock Exchange and the details of the Share repurchases are set out below:

Month of repurchase	Total number of Shares repurchased	Purchase price paid per Share		Aggregate purchase HK\$
		Highest price HK\$	Lowest price HK\$	
January 2013	2,178,000	4.71	4.36	9,857,972.20
June 2013	101,000	6.31	6.10	621,640.20
	2,279,000			10,479,612.40

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

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save for the acquisition of Wright's OrthoRecon business as discussed in the section of "Mergers and Acquisitions", the Group did not have any material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2013.

Details of the aforesaid acquisition were disclosed in the announcement dated 25 June 2013, and the acquisition has yet to be completed as of 30 June 2013, including and up to the date of this interim report.

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the period under review, the Directors were not aware of any business or interest of the Directors or any substantial Shareholder (as defined under the Rule Governing the Listing of Securities on the Stock Exchange (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.

# OTHER INFORMATION

## 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 own code of conduct regarding securities transactions by Directors in the Shares. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the period of six months ended 30 June 2013.

## SHARE OPTION SCHEMES

### PRE-IPO SHARE OPTION SCHEME

In order to attract and retain eligible persons, and to provide an additional incentive for them to promote the success of the Group, the Company had adopted a share option scheme in 2004 (the **"2004 Option Plan"**) and 2006 (the **"2006 Incentive Plan"**) (collectively the **"Pre-IPO Share Option Scheme"**). The 2004 Option Plan, authorized to grant up to 10,261,030 share options, was modified when the Company agreed to assume the obligation of all outstanding and unvested share options of MicroPort Medical (Cayman) Corporation, while the 2006 Incentive Plan was modified prior to IPO by increasing the maximum aggregate number of shares which may be issued to 6,509,157.

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme are 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 30 June 2013, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represent 11.9% of the issued share capital of the Company. However, no additional options have been issued under the Pre-IPO Share Option Scheme since the listing of the Company on the Stock Exchange, and the total outstanding options that has been issued under the Pre-IPO Share Option Scheme is 49,547,860.

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

## SHARE OPTION SCHEME

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

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

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

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time. At 30 June 2013, 29,250,000 options granted under the Share Option Scheme remain outstanding and allows the grantees to subscribe for 29,250,000 Shares, representing approximately 2.08% of the issued share capital of the Company.

## OTHER INFORMATION

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

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

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

The Board will determine the price per Share upon the exercise of an option according to the terms of the Share Option Scheme, provided that it shall be at the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of the offer of a grant; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of the offer of a grant; and (iii) the nominal value of a share on the date of grant.

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

## OTHER INFORMATION

The status of the share options granted up to 30 June 2013 is as follows:

Category of participants	As at 1 January 2013	Granted during the period	Exercised during the period	Withdrawn during the period	As at 30 June 2013	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
<b>Directors</b>										
Zhaohua Chang	10,000,000	-	-	-	10,000,000	9 Jul. 2010	9 Jul. 2011– 8 Jul. 2014	9 Jul. 2011– 8 Jul. 2020	USD0.3062	NA
<b>In aggregate</b>	<b>10,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,000,000</b>					
<b>Consultants</b>										
	2,040,450	-	320,000	-	1,720,450	20 Feb. 2004	24 Sep. 2010– 23 Sep. 2011	24 Sep. 2011– 19 Feb. 2014	USD0.025	NA
	1,700,080	-	1,600,000	-	100,080	20 Feb. 2004	24 Sep. 2010– 23 Sep. 2011	24 Sep. 2011– 19 Feb. 2014	HKD0.05498	NA
	818,680	-	-	-	818,680	20 Feb. 2004	24 Sep. 2010– 23 Sep. 2011	24 Sep. 2011– 19 Feb. 2014	HKD0.05827	NA
	1,774,080	-	-	-	1,774,080	20 Feb. 2004	24 Sep. 2010– 23 Sep. 2011	24 Sep. 2011– 19 Feb. 2014	HKD0.07046	NA
	1,000,000	-	-	-	1,000,000	17 May 2007	17 May 2007– 16 May 2011	17 May 2008– 16 May 2017	USD0.3062	NA
	500,000	-	-	-	500,000	14 Jun. 2007	24 Sep. 2010– 23 Sep. 2014	24 Sep. 2010– 23 Sep. 2020	USD0.3062	NA
<b>Consultants in aggregate</b>	<b>7,833,290</b>	<b>-</b>	<b>1,920,000</b>	<b>-</b>	<b>5,913,290</b>					
<b>Employees</b>										
	818,680	-	-	-	818,680	20 Feb. 2004	24 Sep. 2010– 23 Sep. 2011	24 Sep. 2011– 19 Feb. 2014	HKD0.05637	NA
	2,605,610	-	-	-	2,605,610	2 Mar. 2007	2 Mar. 2007– 14 Feb. 2011	15 Feb. 2008– 24 Jan. 2017	USD0.275	NA

# OTHER INFORMATION

Category of participants	As at 1 January 2013	Granted during the period	Exercised during the period	Withdrawn during the period	As at 30 June 2013	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
Employees	2,206,370	–	326,180	1,640	1,878,550	23 Apr. 2007	23 Apr. 2007– 1 Mar. 2013	23 Apr. 2007– 22 Apr. 2017	USD0.275	NA
	500,000	–	–	–	500,000	14 Jun. 2007	23 Sep. 2007– 22 Sep. 2012	23 Sep. 2008– 22 Sep. 2017	USD0.3062	NA
	900,000	–	400,000	–	500,000	25 Jul. 2008	25 Jul. 2008– 24 Jul. 2012	25 Jul. 2009– 24 Jul. 2018	USD0.3062	NA
	1,000,000	–	–	–	1,000,000	25 Jul. 2008	25 Jul. 2008– 27 Apr. 2010	25 Jul. 2008– 24 Jul. 2018	USD0.3062	NA
	200,000	–	–	–	200,000	1 Dec. 2008	24 Jun. 2008– 23 Jun. 2012	24 Jun. 2009– 26 Jun. 2018	USD0.3062	NA
	1,500,000	–	–	–	1,500,000	1 Dec. 2008	1 Jan. 2009– 31 Dec. 2012	1 Jan. 2010– 31 Dec. 2018	USD0.3062	NA
	250,000	–	–	–	250,000	6 Feb. 2009	6 Feb. 2009– 5 Feb. 2014	6 Feb. 2010– 5 Feb. 2019	USD0.425	NA
	4,000,000	–	–	–	4,000,000	21 Oct. 2009	9 Oct. 2009– 8 Oct. 2014	9 Oct. 2010– 20 Oct. 2019	USD0.3062	NA
	1,500,000	–	–	–	1,500,000	21 Oct. 2009	15 Oct. 2009– 14 Oct. 2014	15 Oct. 2010– 20 Oct. 2019	USD0.3062	NA
	500,000	–	–	–	500,000	21 Oct. 2009	1 Jan. 2010– 31 Dec. 2014	1 Jan. 2011– 20 Oct. 2019	USD0.3062	NA
	700,000	–	–	–	700,000	8 Jul. 2010	1 Aug. 2010– 31 Jul. 2014	1 Aug. 2011– 7 Jul. 2020	USD0.3062	NA
	276,000	–	–	33,000	243,000	8 Jul. 2010	8 Jul. 2010– 7 Jul. 2014	8 Jul. 2011– 7 Jul. 2020	USD0.3062	NA
	8,648,730	–	250,000	–	8,398,730	9 Jul. 2010	9 Jul. 2010– 8 Jul. 2014	9 Jul. 2011– 8 Jul. 2020	USD0.3062	NA



## OTHER INFORMATION

Category of participants	As at 1 January 2013	Granted during the period	Exercised during the period	Withdrawn during the period	As at 30 June 2013	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
<b>Employees</b>										
	5,000,000	–	250,000	–	4,750,000	9 Jul. 2010	9 Jul. 2010– 8 Jul. 2014	9 Jul. 2011– 8 Jul. 2020	USD0.3062	NA
	1,000,000	–	500,000	–	500,000	9 Aug. 2010	9 Aug. 2010– 8 Aug. 2014	28 Apr. 2011– 8 Aug. 2020	USD0.3062	NA
	3,790,000	–	–	–	3,790,000	9 Aug. 2010	9 Aug. 2010– 8 Aug. 2014	1 Sep. 2011– 8 Aug. 2020	USD0.3062	NA
	500,000	–	–	–	500,000	17 Oct. 2011	17 Oct. 2012– 17 Dec. 2018	17 Oct. 2012– 16 Oct. 2021	HKD4.790	NA
	750,000	–	–	–	750,000	1 Nov. 2011	17 Nov. 2012– 1 Nov. 2017	1 Nov. 2012– 31 Oct. 2021	HKD4.470	NA
	10,000,000	–	–	–	10,000,000	28 Aug. 2012	28 Aug. 2019	28 Aug. 2019– 27 Aug. 2022	HKD3.350	HKD3.350
	500,000	–	–	–	500,000	7 Sep. 2012	6 Sep. 2013– 6 Sep. 2017	6 Sep. 2013– 6 Sep. 2022	HKD3.330	HKD3.330
	500,000	–	–	–	500,000	22 Oct. 2012	22 Oct. 2013– 22 Oct. 2017	22 Oct. 2013– 21 Oct. 2022	HKD4.210	HKD4.210
	13,100,000	–	–	600,000	12,500,000	10 Dec. 2012	10 Dec. 2019	10 Dec. 2019– 9 Dec. 2022	HKD4.600	HKD4.600
	–	500,000	–	–	500,000	2 Jan. 2013	2 Jan. 2014– 2 Jan. 2018	2 Jan. 2014– 1 Jan. 2023	HKD4.230	HKD4.230
<b>Employees in aggregate</b>	<b>60,745,390</b>	<b>500,000</b>	<b>1,726,180</b>	<b>634,640</b>	<b>58,884,570</b>					
Seller of Dongguan Kewei	4,000,000	–	–	–	4,000,000	25 Jun. 2012	25 Jun. 2016	25 Jun. 2016– 26 Jul. 2016	HKD3.240	HKD3.190
<b>Total</b>	<b>82,578,680</b>	<b>500,000</b>	<b>3,646,180</b>	<b>634,640</b>	<b>78,797,860</b>					

# OTHER INFORMATION

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 30 June 2013, except for the provision as addressed below, the Company has complied with all code provisions (the “**Code Provisions**”) as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules.

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

## INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend to the Shareholders for the six months ended 30 June 2013 (six months ended 30 June 2012: 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 purposes of the Nomination Committee are 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 the Remuneration Committee are 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 Company has established an audit committee (the “**Audit Committee**”) in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Norihiro Ashida, Mr. Jonathan H. Chou and Mr. Zezhao Hua, respectively.

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 unaudited interim results of the Group for the six months ended 30 June 2013 and considered that the results complied with relevant accounting standards, rules and regulations and appropriate disclosure have been duly made.

## 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 recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions. Accordingly, the Company has maintained investor section at its website at [www.microport.com.cn](http://www.microport.com.cn) to disseminate information to the investors and the Shareholders on a timely basis.

## CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In the six months ended 30 June 2013 and up to the date of this interim report, there were no changes to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

## DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2013 containing all the relevant information required by the Listing Rules has been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.microport.com.cn>).

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

Shanghai, The PRC  
26 August 2013

# INDEPENDENT AUDITOR'S REPORT

## **Review report to the board of directors of MicroPort Scientific Corporation**

*(Incorporated in Cayman Islands with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial report set out on pages 27 to 48 which comprises the consolidated statement of financial position of MicroPort Scientific Corporation (the "Company") as at 30 June 2013 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

#### **KPMG**

Certified Public Accountants

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

26 August 2013

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2013 (unaudited)  
(Expressed in Renminbi Yuan)

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
<b>Turnover</b>	4	<b>421,922</b>	484,916
Cost of sales		(79,506)	(71,833)
<b>Gross profit</b>		<b>342,416</b>	413,083
Other revenue	5	15,792	24,716
Other net income	5	3,131	1,095
Research and development costs		(84,260)	(62,824)
Distribution costs		(64,489)	(64,886)
Administrative expenses		(51,983)	(46,637)
Other operating costs		(43,764)	(313)
<b>Profit from operations</b>		<b>116,843</b>	264,234
Finance costs	6(a)	(1,543)	(327)
<b>Profit before taxation</b>	6	<b>115,300</b>	263,907
Income tax	7	(23,190)	(41,236)
<b>Profit for the period</b>		<b>92,110</b>	222,671
<b>Earnings per share</b>	8		
– Basic (RMB)		0.07	0.16
– Diluted (RMB)		0.06	0.16

The notes on pages 34 to 48 form part of this unaudited interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2013 (unaudited)

(Expressed in Renminbi Yuan)

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
<b>Profit for the period</b>		<b>92,110</b>	222,671
<b>Other comprehensive income for the period</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside the PRC, net of nil tax		(7,453)	4,010
<b>Other comprehensive income for the period</b>		<b>(7,453)</b>	4,010
<b>Total comprehensive income for the period</b>		<b>84,657</b>	226,681

The notes on pages 34 to 48 form part of this unaudited interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2013 (unaudited)  
(Expressed in Renminbi Yuan)

	Note	At 30 June 2013		At 31 December 2012	
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Fixed assets	9				
– Property, plant and equipment			668,307		573,451
– Land use rights			80,716		81,642
			749,023		655,093
Intangible assets			167,568		149,974
Prepayments for fixed assets			75,742		65,404
Goodwill	10		154,955		175,492
Deferred tax assets			15,477		15,949
			1,162,765		1,061,912
<b>Current assets</b>					
Inventories	11	109,522		92,654	
Trade and other receivables	12	390,343		433,890	
Deposits with banks	13	451,528		666,275	
Cash and cash equivalents	14	662,227		413,149	
		1,613,620		1,605,968	
<b>Current liabilities</b>					
Trade and other payables	15	267,392		174,812	
Interest-bearing borrowings		498		20,491	
Income tax payable		14,908		9,011	
Deferred income	16	215		257	
		283,013		204,571	
<b>Net current assets</b>			1,330,607		1,401,397
<b>Total assets less current liabilities</b>			2,493,372		2,463,309
<b>Non-current liabilities</b>					
Interest-bearing borrowings		2,745		2,703	
Deferred income	16	104,072		71,125	
Other non-current liabilities		41,691		40,679	
Deferred tax liabilities		27,355		28,923	
			175,863		143,430
<b>Net assets</b>			2,317,509		2,319,879

The notes on pages 34 to 48 form part of this unaudited interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2013 (unaudited)  
(Expressed in Renminbi Yuan)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
<b>Capital and reserves</b>	17		
Share capital		108	108
Reserves		2,317,401	2,319,771
<b>Total equity</b>		<b>2,317,509</b>	<b>2,319,879</b>

Approved and authorised for issue by the board of directors on 26 August 2013.

**Zhaohua Chang**  
Chairman

**Jonathan H.Chou**  
Director

The notes on pages 34 to 48 form part of this unaudited interim financial report.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013 (unaudited)

(Expressed in Renminbi Yuan)

Note	Attributable to equity shareholders of the Company							Total RMB'000
	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	
<b>Balance at 1 January 2012</b>	109	1,540,920	1	(66,433)	48,582	43,935	548,041	2,115,155
<b>Changes in equity for the six months ended 30 June 2012:</b>								
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(c)	-	1,597	-	(700)	-	-	897
Shares purchased under share award scheme	17(d)	-	-	-	(16,755)	-	-	(16,755)
<b>Balance at 30 June 2012 and 1 July 2012</b>	109	1,542,517	1	(62,423)	41,180	43,935	689,743	2,255,062
<b>Changes in equity for the six months ended 31 December 2012:</b>								
Profit for the period	-	-	-	-	-	-	131,309	131,309
Other comprehensive income	-	-	-	(13,242)	-	-	-	(13,242)
Total comprehensive income	-	-	-	(13,242)	-	-	131,309	118,067
Equity settled share-based transactions	-	-	-	-	6,820	-	-	6,820
Shares issued under the share option scheme	-	5,156	-	-	(2,427)	-	-	2,729
Purchase of own shares								
- par value paid	(1)	-	-	-	-	-	-	(1)
- premium paid	-	-	-	-	-	-	(61,393)	(61,393)
- transfer between reserves	-	-	1	-	-	-	(1)	-
Appropriation of statutory general reserve	-	-	-	-	-	35,567	(35,567)	-
Shares purchased under share award scheme	-	-	-	-	(1,405)	-	-	(1,405)
<b>Balance at 31 December 2012</b>	108	1,547,673	2	(75,665)	44,168	79,502	724,091	2,319,879

The notes on pages 34 to 48 form part of this unaudited interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013 (unaudited)

(Expressed in Renminbi Yuan)

	Note	Attributable to equity shareholders of the Company						
		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
<b>Balance at 1 January 2013</b>		108	1,547,673	2	(75,665)	44,168	79,502	724,091
<b>Changes in equity for the six months ended 30 June 2013:</b>								
Profit for the period		-	-	-	-	-	-	92,110
Other comprehensive income		-	-	-	(7,453)	-	-	-
<b>Total comprehensive income</b>		-	-	-	(7,453)	-	-	92,110
Dividends approved in respect of the previous year	17(a)	-	-	-	-	-	-	(89,741)
Equity settled share-based transactions		-	-	-	-	7,402	-	-
Purchase of own shares	17(b)	-	-	-	-	-	-	-
– par value paid		-	-	-	-	-	-	-
– premium paid		-	-	-	-	-	-	(8,588)
– transfer between reserves		-	-	-	-	-	-	-
Shares issued under share option scheme	17(c)	-	6,233	-	-	(2,733)	-	-
Shares purchased under share award scheme	17(d)	-	-	-	-	(11,932)	-	-
Shares granted under share award scheme	17(d)	-	-	-	-	12,332	-	-
<b>Balance at 30 June 2013</b>		108	1,553,906	2	(83,118)	49,237	79,502	717,872

The notes on pages 34 to 48 form part of this unaudited interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2013 (unaudited)  
(Expressed in Renminbi Yuan)

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Cash generated from operations		198,573	196,529
Income tax paid		(18,388)	(29,131)
Net cash generated from operating activities		180,185	167,398
Net cash generated/(used) in investing activities		115,896	(945,785)
Net cash used in financing activities		(50,036)	(25,962)
Net increase/(decrease) in cash and cash equivalents		246,045	(804,349)
Cash and cash equivalents at 1 January	14	413,149	1,095,209
Effect of foreign exchange rate changes		3,033	(972)
Cash and cash equivalents at 30 June	14	662,227	289,888

The notes on pages 34 to 48 form part of this unaudited interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1. BASIS OF PREPARATION

The 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 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon 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. KPMG's independent review report to the Board of Directors is included on page 26.

The financial information relating to the financial year ended 31 December 2012 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 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2013.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. CHANGES IN ACCOUNTING POLICIES

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

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

HKFRS 10, *Consolidated financial statements*

HKFRS 11, *Joint arrangements*

HKFRS 12, *Disclosure of interests in other entities*

HKFRS 13, *Fair value measurement*

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

*Annual Improvements to HKFRSs 2009-2011 Cycle*

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

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

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

### **HKFRS 10, Consolidated financial statements**

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

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

### **HKFRS 11, Joint arrangements**

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

### HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

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

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

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

### Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets and now also discloses segment liabilities in note 4.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3. CHANGES IN ACCOUNTING ESTIMATES

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

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

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

	1 January 2013 to 30 June 2013	1 July 2013 to 31 December 2013	2014	Year			2017 and afterwards
				2015	2016		
Increase/(Decrease) in profit before income tax expense	7.0 million	6.7 million	12.2 million	7.3 million	2.3 million		(35.5 million)

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 4. 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 identified seven reportable segments. No operating segments have been aggregated to form the following reportable segments.

### (a) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Six months ended 30 June 2013						
	Cardiovascular devices business	Endovascular devices business	Neurovascular devices business	Orthopedic devices business	Diabetes care and endocrinal business	Electrophysiology devices business	Surgical management business
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	330,471	34,880	11,729	6,386	5,389	7,291	25,776
Segment net profit/(loss)	150,259	4,387	3,821	(27,383)	(1,322)	(6,183)	221
	At 30 June 2013						
	Cardiovascular devices business	Endovascular devices business	Neurovascular devices business	Orthopedic devices business	Diabetes care and endocrinal business	Electrophysiology devices business	Surgical management business
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	1,460,392	67,569	43,621	375,242	26,547	56,841	239,681
Reportable segment liabilities	223,840	1,520	1,393	73,674	15,665	4,935	78,280



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 4. SEGMENT REPORTING (CONTINUED)

### (a) Information about profit or loss, assets and liabilities (continued)

	Six months ended 30 June 2012						
	Cardiovascular devices business	Endovascular devices business	Neurovascular devices business	Orthopedic devices business	Diabetes care and endocrinal business	Electrophysiology devices business	Surgical management business
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	418,846	30,310	10,202	16,931	4,983	3,644	-
Segment net profit/(loss)	238,358	4,670	932	(3,990)	(5,232)	(11,728)	-
At 31 December 2012							
	Cardiovascular devices business	Endovascular devices business	Neurovascular devices business	Orthopedic devices business	Diabetes care and endocrinal business	Electrophysiology devices business	Surgical management business
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	1,299,833	54,120	31,198	398,870	23,633	52,221	261,390
Reportable segment liabilities	201,018	83	156	51,810	11,503	1,574	100,131

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 exchange gain/(loss), unallocated corporate income and expenses, equity-settled share-based payment expenses and PRC dividend withholding tax are excluded from segment profit/(loss).

### (b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Reportable segment net profit	123,800	223,010
Equity settled share-based payment expenses	(18,644)	(10,053)
Unallocated exchange gain/(loss)	6,363	(1,096)
Unallocated (expenses)/income, net	(19,409)	10,810
<b>Consolidated profit for the period</b>	<b>92,110</b>	<b>222,671</b>

(Expressed in Renminbi Yuan unless otherwise indicated)

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
<b>Other revenue</b>		
Government grants	3,569	8,122
Interest income on bank deposits	12,223	16,594
	<b>15,792</b>	24,716
<b>Other net income</b>		
Net foreign exchange gain	2,127	1,404
Other net income/(losses)	1,004	(309)
	<b>3,131</b>	1,095

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

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
(a) Finance costs		
Interest on borrowings	1,307	156
Others	236	171
Total finance costs	1,543	327

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 6. PROFIT BEFORE TAXATION (CONTINUED)

Six months ended 30 June	
2013	2012
RMB'000	RMB'000
(b) Other items	
Transaction costs for a contemplated acquisition	18,299
Impairment loss of intangible assets	3,066
Impairment loss of a goodwill (note 10)	20,537
Amortisation of intangible assets	2,909
Depreciation	15,418
Research and development costs	84,260
(Reversal of)/inventories write-down (note 11)	(3,733)
	1,356

Pursuant to an agreement dated 18 June 2013, the Group agreed to acquire a worldwide hip and knee orthopaedic reconstruction business (the "Acquisition"), closing of which is subject to a number of conditions as specified in that agreement. Transaction costs of RMB18,299,000 relating to the Acquisition had been recorded in "Other operating costs" for the six months ended 30 June 2013.

The research and development costs include amortisation of intangible assets of RMB339,000 (six months ended 30 June 2012: RMB142,000) and depreciation of RMB4,407,000 (six months ended 30 June 2012: RMB4,839,000).

## 7. INCOME TAX

Six months ended 30 June	
2013	2012
RMB'000	RMB'000
Current tax – PRC corporate income tax	24,286
Current tax – others	–
Deferred taxation	(1,096)
	23,190
	41,236

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

Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai") and Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") obtained the renewed certificate of "advanced and new technology enterprise" dated 17 August 2011 and 13 November 2011 respectively with an effective period of three years. According to Guoshuihan 2009 No. 203, if an entity is certified as an "advanced and new technology enterprise", it is entitled to a preferential income tax rate of 15%. The provision for PRC corporate income tax for MP Shanghai and Dongguan Kewei is calculated by applying the income tax rate of 15% (2012: 15%).

Taxation for other entities of the Group is similarly calculated using the applicable income tax rates of the respective countries or jurisdictions.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 8. 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 RMB92,110,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB222,671,000) and the weighted average of 1,402,425,000 ordinary shares in issue during the six months ended 30 June 2013 (six months ended 30 June 2012: 1,418,379,000 ordinary shares).

(i) *Weighted average number of ordinary shares*

	Six months ended 30 June	
	2013 Number of shares '000	2012 Number of shares '000
Issued ordinary shares at 1 January	1,400,430	1,420,483
Effect of shares under the share options scheme	2,413	775
Effect of purchase of own shares	(1,972)	–
Effect of shares purchased and granted under share award scheme	1,554	(2,879)
Weighted average number of ordinary shares at 30 June	1,402,425	1,418,379

### (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 RMB92,110,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB222,671,000) and the weighted average of 1,432,822,000 ordinary shares for the six months ended 30 June 2013 (six months ended 30 June 2012: 1,430,720,000 ordinary shares) in issue after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

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

	Six months ended 30 June	
	2013 Number of shares '000	2012 Number of shares '000
Weighted average number of ordinary shares at 30 June	1,402,425	1,418,379
Effect of deemed issue of shares under the Company's share option scheme at nil consideration	30,397	12,341
Weighted average number of ordinary shares (diluted) at 30 June	1,432,822	1,430,720

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 9. FIXED ASSETS

During the six months ended 30 June 2013, the Group acquired items of property and equipment with a cost of RMB48,072,000 (six months ended 30 June 2012: RMB62,251,000), and incurred construction costs for buildings of RMB70,036,000 (six months ended 30 June 2012: RMB49,366,000).

## 10. GOODWILL

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

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculation use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the long-term inflation rate in the PRC. The cash flows are discounted using a discount rate of 29%. The discount rate used is pre-tax and reflected specific risks relating to the relevant cash-generating unit.

The impairment loss recognised during the six months ended 30 June 2013 solely relates to the cash-generating unit. As the cash-generating unit has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

## 11. INVENTORIES

During the six months ended 30 June 2013, RMB3,733,000 has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of reversal of a write-down of inventories to estimated net realisable value. This reversal arose due to an increase in the estimated net realisable value of certain materials as a result of a change in estimated future consumption volume of the related materials.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 12. TRADE AND OTHER RECEIVABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Current	278,229	353,313
Less than 1 month past due	13,345	6,910
1 to 3 months past due	28,834	10,357
More than 3 months past due	25,057	32,482
Trade receivables net of allowance for doubtful debts	345,465	403,062
Other debtors	30,281	20,793
Prepayments	14,597	10,035
	390,343	433,890

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

Trade debtors are due within 30 to 180 days from the date of billing.

## 13. DEPOSITS WITH BANKS

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Time deposits with original maturities over three months	447,248	661,995
Pledged deposits	4,280	4,280
	451,528	666,275

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 14. CASH AND CASH EQUIVALENTS

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Cash at bank and on hand	444,727	319,149
Time deposits with banks	217,500	94,000
	<b>662,227</b>	<b>413,149</b>

## 15. TRADE AND OTHER PAYABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Due within 1 month or on demand	29,775	47,320
Due after 1 month but within 3 months	9,469	2,846
Due after 3 months but within 6 months	1,390	1,032
Due after 6 months but within 1 year	9,198	6,885
Trade payables	49,832	58,083
Advances received	3,506	2,572
Other payables and accrued charges	123,791	113,612
Dividends payable to equity shareholders of the Company	90,263	545
	<b>267,392</b>	<b>174,812</b>

## 16. DEFERRED INCOME

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 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:

Final dividend in respect of the previous financial year, approved during the following interim period, of HKD 8 cents (equivalent to RMB 6 cents) per share (six months ended 30 June 2012: HKD 7 cents (equivalent to RMB 6 cents) per share)

Six months ended 30 June	
2013 RMB'000	2012 RMB'000
89,741	80,969

### (b) Purchase of own shares

During the interim period, the company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregate price paid RMB'000
January 2013 <sup>#</sup>	2,178,000	3.79	3.57	8,092
June 2013 <sup>#</sup>	101,000	5.02	4.89	496
				8,588
June 2013 (see note 17(d))	2,337,000	5.17	5.07	11,932

<sup>#</sup> These repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB8,588,000 was charged to retained profits.

### (c) Equity settled share-based transactions

On 2 January 2013, 500,000 share options were granted for nil consideration to employees of the Group under the Company's employee share option scheme (4,000,000 share options were granted during the six months ended 30 June 2012). Each option entitles the holder to subscribe for one ordinary share in the Company. These share options will vest during the period from 2 January 2014 to 2 January 2018. The exercise price is HK\$4.23, being the closing price the Company's ordinary shares immediately before the grant.

3,646,180 share options were exercised during the six months ended 30 June 2013 (six months ended 30 June 2012: 1,035,640) with a weighted average exercise price of RMB0.96 (six months ended 30 June 2012: RMB0.86) and the total number of ordinary shares increased by 3,646,180 for the six months ended 30 June 2013 (six months ended 30 June 2012: 1,035,640 ordinary shares).



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17. CAPITAL, REVERSES AND DIVIDENDS (CONTINUED)

### (d) 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. For the six months ended 30 June 2013, the Company granted 2,877,000 shares to the Group's executives in April 2013 and purchased 2,337,000 shares at cash consideration of RMB11,932,000, which have not yet been granted under this share award scheme (six months ended 30 June 2012: RMB16,755,000).

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.

## 18. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Contracted for	255,357	162,467
Authorised but not contracted for	309,713	314,591
	<b>565,070</b>	<b>477,058</b>

## 19. MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

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

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Salaries and other benefits	3,775	3,767
Discretionary bonuses	5,472	–
Retirement scheme contributions	40	40
Equity-settled share-based payment expenses	3,647	6,556
	<b>12,934</b>	<b>10,363</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

## 19. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with ultimate shareholder

For the six months ended 30 June 2013 and 2012, the Group has entered into sales transactions with the following related parties:

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

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

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
<b>Sales of goods to:</b>		
JIMRO	418	714
Thai Otsuka	2,277	3,745
Otsuka Philippines	4,311	3,468
Otsuka Indonesia	1,665	2,059
Otsuka Pakistan	2,243	1,552
	<b>10,914</b>	<b>11,538</b>

	At 30 June	
	2013 RMB'000	At 31 December 2012 RMB'000
<b>Trade receivables from:</b>		
JIMRO	276	750
Thai Otsuka	1,655	1,275
Otsuka Philippines	2,079	964
Otsuka Indonesia	1,426	1,870
Otsuka Pakistan	1,709	1,103
	<b>7,145</b>	<b>5,962</b>