MicroPort Scientific Corporation

微創醫療科學有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	Financial year ended		
	2016	2015	Change
	US$'000	*US$'000*	*%*
Revenue	**389,921**	375,844	3.7
Gross profit	**271,678**	252,509	7.6
Profit/(loss) for the year	**15,069**	(11,379)	n/a
Profit/(loss) attributable to equity shareholders of the Company	**14,141**	(12,086)	n/a
Earnings/(loss) per share –			
Basic (in cents)	**0.99**	(0.85)	n/a
Diluted (in cents)	**0.98**	(0.85)	n/a

For the year ended 31 December 2016, MicroPort Scientific Corporation (the "Company", "MicroPort") and its subsidiaries (collectively the "Group") recorded a revenue of US$389.9 million, representing a growth of 6.6% excluding the foreign exchange impact and a growth of 3.7% in US$ compared to 2015. Such increase was achieved through revenue growth across all major business segments: cardiovascular devices segment performed strongly and recorded an increase in revenue by 11.8% excluding the foreign exchange impact, orthopedics devices segment stabilized with a steady growth of 1.6% excluding the foreign exchange impact, and the remaining major segments also had an outstanding year with electrophysiology ("EP") devices, endovascular devices, and neurovascular devices business achieving growth rates of 28.1%, 23.6% and 19.5% respectively excluding the foreign exchange impact.

The Group recorded a net profit of US$15.1 million for the year ended 31 December 2016, compared with a net loss of US$11.4 million for the year ended 31 December 2015. The significant improvement was primarily attributable to the increase in gross profit of US$19.2 million driven by the revenue growth, increase in foreign exchange gain of US$2.5 million, and the decrease in operating expenses of US$8.5 million through the improvement of operating efficiencies.

* *For identification purpose only*

The board (the "Board") of directors (the "Directors") of the Company hereby announces the consolidated audited annual results of the Group for the year ended 31 December 2016 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in United States dollars)

	Note	**2016**	2015
		US$'000	*US$'000*
Revenue	*4*	**389,921**	375,844
Cost of sales		**(118,243)**	(123,335)
Gross profit		**271,678**	252,509
Other revenue	*5*	**13,333**	12,221
Other net income	*5*	**7,344**	3,304
Research and development costs		**(51,897)**	(60,354)
Distribution costs		**(128,464)**	(127,739)
Administrative expenses		**(64,245)**	(65,031)
Other operating costs		**(1,818)**	(4,886)
Profit from operations		**45,931**	10,024
Finance costs	*6(a)*	**(16,704)**	(14,778)
Share of losses of a joint venture		**(3,941)**	(3,788)
Profit/(loss) before taxation	*6*	**25,286**	(8,542)
Income tax	*7(a)*	**(10,217)**	(2,837)
Profit/(loss) for the year		**15,069**	(11,379)
Attributable to:			
Equity shareholders of the Company		**14,141**	(12,086)
Non-controlling interests		**928**	707
Profit/(loss) for the year		**15,069**	(11,379)
Earnings/(loss) per share	*9*		
Basic (in cents)		**0.99**	(0.85)
Diluted (in cents)		**0.98**	(0.85)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in United States dollars)

	2016	2015
	US$'000	*US$'000*
Profit/(loss) for the year	**15,069**	(11,379)
Other comprehensive income for the year, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**(29,584)**	(25,947)
Other comprehensive income for the year	**(29,584)**	(25,947)
Total comprehensive income for the year	**(14,515)**	(37,326)
Attributable to:		
Equity shareholders of the Company	**(14,934)**	(37,920)
Non-controlling interests	**419**	594
Total comprehensive income for the year	**(14,515)**	(37,326)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	**31 December 2016**	31 December 2015
		US$'000	*US$'000*
Non-current assets			
Investment properties		**5,720**	–
Other property, plant and equipment		**248,885**	253,792
Land use rights		**15,638**	17,411
		270,243	271,203
Intangible assets		**68,152**	60,217
Prepayments for non-current assets		**2,010**	2,711
Goodwill	*10*	**54,458**	55,463
Interest in an associate		**11,432**	–
Interest in a joint venture		**676**	4,759
Available-for-sale securities		**2,000**	–
Deferred tax assets		**4,739**	3,711
Other non-current assets		**3,364**	4,339
		417,074	402,403
Current assets			
Inventories		**100,863**	101,840
Trade and other receivables	*11*	**128,752**	126,957
Pledged deposits and time deposits		**668**	2,976
Cash and cash equivalents		**123,694**	99,467
Derivative financial assets		**3,499**	–
		357,476	331,240
Current liabilities			
Trade and other payables	*12*	**96,858**	99,423
Interest-bearing borrowings	*13*	**108,456**	55,086
Income tax payable		**4,621**	1,226
Derivative financial liabilities		**23**	397
Obligations under finance leases		**81**	1,209
Other current liabilities		**–**	7,260
		210,039	164,601
Net current assets		**147,437**	166,639
Total assets less current liabilities		**564,511**	569,042

	Note	**31 December 2016**	31 December 2015
		US$'000	*US$'000*
Non-current liabilities			
Interest-bearing borrowings	*13*	**40,085**	129,374
Convertible bonds	*14*	**147,769**	94,815
Deferred income		**24,231**	22,086
Other financial liabilities		**2,664**	1,574
Deferred tax liabilities		**3,283**	3,365
		218,032	251,214
NET ASSETS		**346,479**	317,828
CAPITAL AND RESERVES			
Share capital	*8(b)*	**14**	14
Reserves		**332,895**	312,505
Total equity attributable to equity shareholders of the Company		**332,909**	312,519
Non-controlling interests		**13,570**	5,309
TOTAL EQUITY		**346,479**	317,828

1 Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments that are measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure Initiative*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Revenue and segment reporting

(a) Revenue

The Group derives revenue principally from the sales of medical devices through appointed sales distributors. The Group does not provide product warranties to customers. Sales returns are only allowed under certain specific circumstances, which is determined and approved by management and within certain period of time agreed by buyer and seller.

Revenue by major category is as follows:

	2016	2015
	US$'000	*US$'000*
Orthopedics devices	**210,158**	205,237
Cardiovascular devices		
– Drug eluting stents	**131,844**	120,428
– Others	**5,851**	12,125
Endovascular devices		
– TAA/AAA stent grafts	**14,863**	12,370
– Others	**4,029**	3,780
Electrophysiology devices	**6,961**	5,813
Neurovascular devices	**8,769**	7,851
Surgical devices	**5,535**	6,102
Diabetes and endocrinal devices	**1,600**	2,138
Rental income	**311**	–
	389,921	375,844

For the years ended 31 December 2016 and 2015, there was no customer with whom transactions have exceeded 10% of the Group's revenue.

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

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of businesses and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following seven reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.
- Cardiovascular devices business: sales, manufacture, research and development of cardiovascular devices, such as drug eluting stents.
- Endovascular devices business: sales, manufacture, research and development of endovascular devices.
- Electrophysiology devices business: sales, manufacture, research and development of electrophysiology devices.
- Neurovascular devices business: sales, manufacture, research and development of neurovascular devices.
- Surgical management business: sales, manufacture, research and development of surgical devices.
- Diabetes care and endocrinal management business: sales, manufacture, research and development of devices related to diabetes mellitus.

(i) Segment results, assets and liabilities

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

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

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

The measure used for reporting segment profit/(loss) is "reportable 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 the PRC dividends withholding tax are excluded from segment net profit/(loss).

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

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 years ended 31 December 2016 and 2015 is set out below.

	2016							
	Orthopedics devices business *US$'000*	**Cardiovascular devices business** *US$'000*	**Endovascular devices business** *US$'000*	**Electrophysiology devices business** *US$'000*	**Neurovascular devices business** *US$'000*	**Surgical management business** *US$'000*	**Diabetes care and endocrinal business** *US$'000*	**Total** *US$'000*
Revenue from external customers								
– Sales of medical devices	**210,158**	**137,695**	**18,892**	**6,961**	**8,769**	**5,535**	**1,600**	**389,610**
– Rental income	**–**	**246**	**–**	**–**	**65**	**–**	**–**	**311**
	210,158	**137,941**	**18,892**	**6,961**	**8,834**	**5,535**	**1,600**	**389,921**
Reportable segment net (loss)/profit	**(27,394)**	**57,845**	**6,420**	**(2,658)**	**2,635**	**(4,193)**	**(1,580)**	**31,075**
Depreciation and amortisation for the year	**23,813**	**8,790**	**593**	**856**	**524**	**1,394**	**111**	**36,081**
Income tax	**885**	**7,938**	**976**	**–**	**39**	**–**	**–**	**9,838**
(Reversal)/increase of inventory provision	**(338)**	**538**	**114**	**69**	**–**	**465**	**66**	**914**
Impairment losses of								
– Goodwill	**999**	**–**	**–**	**–**	**–**	**–**	**–**	**999**
Reportable segment assets	**379,682**	**321,181**	**46,378**	**18,185**	**15,399**	**20,831**	**3,688**	**805,344**
Additions to non-current segment assets during the year	**34,744**	**23,065**	**8,701**	**903**	**375**	**846**	**34**	**68,668**
Reportable segment liabilities	**128,272**	**116,300**	**4,037**	**8,208**	**1,756**	**16,284**	**6,645**	**281,502**

	2015							
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Revenue from external customers								
– Sales of medical devices	205,237	132,553	16,150	5,813	7,851	6,102	2,138	375,844
Reportable segment net (loss)/profit	(40,018)	38,372	4,773	(3,602)	1,861	(3,871)	(1,566)	(4,051)
Depreciation and amortisation for the year	26,910	8,060	448	298	477	1,270	140	37,603
Income tax	739	6,369	844	–	177	–	–	8,129
(Reversal)/increase of inventory provision	(545)	760	–	–	–	–	117	332
Write-off of intangible assets	–	3,783	–	1,025	–	–	–	4,808
Impairment losses of								
– Intangible assets	–	–	–	–	–	282	–	282
– Goodwill	–	–	–	–	–	984	–	984
Reportable segment assets	396,150	359,517	25,083	21,105	16,773	27,894	5,117	851,639
Additions to non-current segment assets during the year	14,743	14,810	5,276	5,063	3,851	1,399	83	45,225
Reportable segment liabilities	119,360	131,046	9,882	9,894	4,761	21,244	6,739	302,926

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

	2016	2015
	US$'000	*US$'000*
Profit or loss		
Reportable segment net profit/(loss)	**31,075**	(4,051)
Equity-settled share-based payment expenses	**(2,795)**	(2,448)
Unallocated exchange gain	**6,270**	3,444
Unallocated income and expenses	**(19,481)**	(8,324)
Consolidated profit/(loss) for the year	**15,069**	(11,379)
Assets		
Reportable segment assets	**805,344**	851,639
Elimination of inter-segment receivables	**(85,131)**	(127,583)
	720,213	724,056
Unallocated corporate assets:		
– Cash and cash equivalents	**54,278**	8,801
– Others	**59**	786
	54,337	9,587
Consolidated total assets	**774,550**	733,643
Liabilities		
Reportable segment liabilities	**281,502**	302,926
Elimination of inter-segment payables	**(85,131)**	(127,583)
Deferred tax liabilities	**1,855**	1,981
Convertible bonds *(note 14)*	**147,769**	94,815
Derivative financial liabilities	**23**	397
Interest-bearing borrowings	**80,355**	134,196
Unallocated corporate liabilities	**1,698**	9,083
Consolidated total liabilities	**428,071**	415,815

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, land use right, intangible assets, goodwill and interest in associate and joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and land use rights, the location of the operation to which they are allocated, in case of intangible assets and goodwill, and the location of operations, in case of interest in an associate and a joint venture.

Revenue from external customers

	2016	2015
	US$'000	*US$'000*
The PRC (country of domicile)	**178,899**	170,462
North America	**91,998**	91,571
Europe	**60,850**	59,956
Asia	**39,241**	37,081
South America	**13,179**	11,666
Others	**5,754**	5,108
	211,022	205,382
	389,921	375,844

Specified non-current assets

	2016	2015
	US$'000	*US$'000*
The PRC (country of domicile)	**259,653**	248,052
North America	**122,321**	131,145
Europe	**10,536**	5,708
Asia	**5,740**	6,401
South America	**279**	336
	138,876	143,590
	398,529	391,642

5 Other revenue and net income

	2016	2015
	US$'000	*US$'000*
Other revenue		
Government grants *(note)*	**12,448**	11,218
Interest income on bank deposits	**843**	1,003
Interest income on the convertible bonds	**42**	–
	13,333	12,221

Note: Majority of the government grants are subsidies received from government for encouragement of research and development projects.

Government grants recognised in "other revenue" included unconditional grants of US$4,433,000 (2015: US$2,558,000) to compensate the Group for research expenses already incurred and conditional grants of US$8,015,000 (2015: US$8,660,000) transferred from deferred income as the conditions attaching to the grant were complied with during the year ended 31 December 2016.

	2016	2015
	US$'000	*US$'000*
Other net income		
Net loss on disposal of property, plant and equipment	**(560)**	(718)
Net foreign exchange gain	**6,733**	4,254
Changes in fair value of embedded financial derivatives	**263**	195
Others	**908**	(427)
	7,344	3,304

6 Profit/(loss) before taxation

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

	2016	2015
	US$'000	*US$'000*
(a) Finance costs		
Interest on the Otsuka Loans *(note 13(b))*	**2,758**	2,438
Interest on the convertible bonds *(note 14)*	**8,715**	4,664
Interest on other interest-bearing borrowings	**4,324**	6,003
Others	**907**	1,673
	16,704	14,778

	2016	2015
	US$'000	*US$'000*
(b) Staff costs		
Contributions to defined contribution retirement plan	**9,816**	10,264
Equity-settled share-based payment expenses	**5,645**	4,652
Cash-settled share-based payment expenses	**1,670**	1,224
Salaries, wages and other benefits	**120,096**	122,951
	137,227	139,091

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiaries in the PRC participated in the defined contribution retirement schemes arranged by the governmental organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect. Contributions to the plan vest immediately.

The Group sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code, which covers US employees who are 21 years of age and over. Under this plan, the Group matches voluntary employee contributions at a rate of 100% for the first 2% of an employee's annual compensation and at a rate of 50% for the next 2% of an employee's annual compensation. Employees vest in the employer contributions after three years of service.

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

	2016	2015
	US$'000	*US$'000*
(c) Other items		
Amortisation[#]		
– land use rights	**378**	402
– intangible assets	**5,670**	5,130
	6,048	5,532
Depreciation of investment properties and other property, plant and equipment[#]	**30,983**	32,938
Less: amount capitalised as development costs	**(950)**	(867)
	30,033	32,071
Impairment losses		
– trade and other receivables	**1,473**	635
– intangible assets	**–**	282
– goodwill *(note 10)*	**999**	984
	2,472	1,901
Operating lease charges: minimum lease payment	**7,732**	7,839
Rental income from investment properties	**311**	–
Auditors' remuneration		
– audit services	**1,001**	1,194
– non-audit services	**–**	301
	1,001	1,495
Research and development costs (other than amortisation costs of intangible assets)	**49,546**	53,660
Write-off of intangible assets	**–**	4,808
Cost of inventories[#]	**125,068**	130,540

[#] Cost of inventories includes US$39,304,000 (2015: US$43,536,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

Impairment losses on goodwill and intangible assets are all included in other operating costs.

Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$24,245,000 (2015: US$27,771,000), depreciation of the relevant property, plant and equipment of US$3,395,000 (2015: US$3,816,000) and cost of inventories of US$6,204,000 (2015: US$6,305,000), which are included in the total staff cost as disclosed in note 6(b), depreciation as disclosed in note 6(c) and cost of inventories, respectively.

7 Income tax in the consolidated statement of profit or loss

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

	2016	2015
	US$'000	*US$'000*
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**9,675**	1,279
Under/(over) provision in respect of prior years	**195**	(366)
	9,870	913
Current tax – other jurisdictions		
Provision for the year	**1,294**	1,574
(Over)/under provision in respect of prior years	**(22)**	80
	1,272	1,654
	11,142	2,567
Deferred tax		
Origination and reversal of temporary differences	**(925)**	270
	10,217	2,837

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2015: 16.5%) of the estimated assessable profits.

(iii) PRC CIT

Pursuant to the CIT Law of the PRC, all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25% except for four entities entitled to a preferential income tax rate of 15% as they are certified as "advanced and new technology enterprise" ("ANTE"). According to Guoshuihan 2009 No. 203, if an entity is certified as an ANTE, it is entitled to a preferential income tax rate of 15%.

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

(iv) United States ("US") corporate tax

In the US, the Group is taxed at a federal corporate tax rate of 35% plus various state tax rates. The Group has net operating losses in the US for federal and state tax purposes that may be carried forward for up to 20 years.

Taxation for other entities of the Group is charged at their respective applicable income tax rates ruling in the relevant jurisdictions.

As at 31 December 2016, based on management's assessment of the probability on the future taxable profit subsequent to the date of the reporting period, no deferred tax assets had been recognised for tax losses and deductible temporary differences of certain loss-making entities.

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

	2016	2015
	US$'000	*US$'000*
Profit/(loss) before taxation	**25,286**	(8,542)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit/(loss) in the countries concerned	**5,661**	(3,350)
Effect of PRC preferential tax rate	**(4,755)**	(262)
Effect of equity-settled share-based payment expenses	**(1,530)**	612
Effect of other non-deductible expenses	**2,342**	2,307
Effect of non-taxable revenue	**(194)**	(189)
Effect of deemed taxable income	**220**	231
Effect of super-deduction on research and development expenses	**(1,703)**	(2,628)
Effect of tax losses not recognised	**9,830**	15,038
Effect of deductible loss arising from intra-group restructuring	**(207)**	(8,821)
Under/(over) provision in respect of prior years	**173**	(286)
Withholding tax on profit distributions	**380**	185
Actual tax expenses	**10,217**	2,837

8 Dividends and share capital

(a) Dividends

After the period end, the directors of the Company proposed a final dividend of HK$1.9 cent per ordinary share for the year ended 31 December 2016 (2015: nil), which has not been recognised as a liability at 31 December 2016.

Shareholders will be offered a right to elect as an alternative, to receive the final dividend wholly by allotment of scrip shares in lieu of cash (the "Scrip Dividend Scheme"), which is subject to the approval of the proposed final dividend and the Scrip Dividend Scheme at the forthcoming annual general meeting and the granting by the Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be allotted and issued under the Scrip Dividend Scheme.

(b) Share capital

(i) Ordinary shares

	2016		2015	
	Number of shares *'000*	**Amount** ***US$'000***	Number of shares *'000*	Amount *US$'000*
Authorised:				
Ordinary shares of US$0.00001 each	**4,987,702**	**50**	4,987,702	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,426,569**	**14**	1,422,160	14
Shares issued under share option plans	**8,912**	**–**	4,409	–
Shares issued under the settlement of other current liabilities	**4,000**	**–**	–	–
At 31 December	**1,439,481**	**14**	1,426,569	14

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase of own shares

During the year, the Company purchased its own ordinary shares on The Stock Exchange of Hong Kong Limited under the share award scheme as follows:

Month/year	**No. of shares repurchased**	**Highest price paid per share** *US$*	**Lowest price paid per share** *US$*	**Aggregate considerations paid** *US$'000*
January 2016	2,657,000	0.47	0.45	1,129
April 2016	2,863,000	0.49	0.49	1,407
September 2016	4,014,000	0.64	0.61	2,503
November 2016	981,000	0.76	0.73	735
	10,515,000			5,774

9 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The basic earnings per share for the year ended 31 December 2016 is US$0.99 cents (2015: loss per share of US$0.85 cents). The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of US$14,141,000 (2015: loss of US$12,086,000) and the weighted average number of ordinary shares of 1,422,891,000 ordinary shares (2015: 1,415,068,000 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**1,426,569**	1,422,160
Effect of share options exercised	**7,454**	1,527
Effect of shares under share award scheme	**(11,132)**	(8,619)
Weighted average number of ordinary shares at 31 December	**1,422,891**	1,415,068

(b) Diluted earnings/(loss) per share

The diluted earnings per share for the year ended 31 December 2016 is US$0.98 cents (2015: loss per share of US$0.85 cents). The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of US$14,141,000 (2015: loss of US$12,086,000) and the weighted average number of ordinary shares of 1,438,090,000 shares (2015: 1,415,068,000 shares) after adjusting 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)

	2016	2015
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,422,891**	1,415,068
Effect of deemed issue of shares under the Company's share option scheme	**15,199**	–
Weighted average number of ordinary shares (diluted) at 31 December	**1,438,090**	1,415,068

The calculation of diluted earnings per share amount for the year ended 31 December 2016 has not included the potential effect of the deemed conversion of the convertible bonds (note 14) and the Term B Loan (note 13(b)) into ordinary shares during the year, as they have an anti-dilutive effect on the basic earnings per share amount for the year.

10 Goodwill

	US$'000
Cost:	
At January 2015	83,138
Exchange adjustments	(1,656)
At 31 December 2015 and 1 January 2016	81,482
Exchange adjustments	(1,726)
At 31 December 2016	79,756
Accumulated impairment losses:	
At January 2015	26,609
Exchange adjustments	(1,574)
Impairment loss	984
At 31 December 2015 and 1 January 2016	26,019
Exchange adjustments	(1,720)
Impairment loss	999
At 31 December 2016	25,298
Carrying amount:	
At 31 December 2016	54,458
At 31 December 2015	55,463

Impairment tests for cash-generating unit containing goodwill

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

	2016	2015
	US$'000	*US$'000*
Orthopedics devices business		
– OrthoRecon Business	**54,458**	54,458
– Others	**–**	1,005
	54,458	55,463

As at 31 December 2016, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a six-year to a seven-year period with the final year representing a steady state in the development of the business. Cash flows beyond the six to seven-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculations are as follows, which are based on either the past experience or external sources of information:

	Orthopedics devices business – OrthoRecon Business	**Orthopedics devices business – Others**
Annualised revenue growth rate during the forecast period	2%-6%	3%-25%
Gross profit ratio	66%-69%	45%-58%
Steady growth rate used in the extrapolation after 6-7 years	3%	3%
Pre-tax discount rate	22%	24%

The impairment loss recognised during the year ended 31 December 2016 relates to the Group's orthopedics devices business other than the OrthoRecon business.

The profitability of the Group's trauma and spine products under the orthopedics devices segment (the "cash-generating unit", "CGU") has declined during the year. As a result, the Group performed assessment of impairment for goodwill allocated to the CGU. Based on such assessment, the carrying value of the CGU exceeds its recoverable amount by US$1,142,000 as at 30 June 2016. Accordingly, an impairment loss was recognised in respect of this CGU of which US$999,000 has been allocated to reduce the carrying amount of the goodwill to zero allocated to the CGU.

11 Trade and other receivables

	2016	2015
	US$'000	*US$'000*
Trade debtors due from:		
– third party customers	**104,125**	104,465
– related parties	**1,443**	1,272
	105,568	105,737
Less: Allowance for doubtful debts *(note 11(b))*	**(5,385)**	(4,337)
	100,183	101,400
Other debtors	**10,109**	9,317
Income tax recoverable	**2,958**	3,325
Amounts due from related parties	**2,000**	–
Amounts due from New Alliance FF Limited ("New Alliance")	**2,000**	–
Loans and receivables	**117,250**	114,042
Deposits and prepayments	**11,502**	12,915
	128,752	126,957

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

(a) Ageing analysis

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

	2016	2015
	US$'000	*US$'000*
Within 1 month	**30,088**	33,382
1 to 3 months	**41,319**	40,868
3 to 12 months	**19,142**	17,837
More than 12 months	**9,634**	9,313
	100,183	101,400

Trade debtors are due within 30 to 360 days from the date of billing.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016	2015
	US$'000	*US$'000*
At 1 January	**4,337**	3,896
Impairment loss recognised	**1,319**	635
Exchange adjustments	**(271)**	(194)
At 31 December	**5,385**	4,337

The Group's trade debtors of US$5,385,000 (2015: US$4,337,000) were impaired as at 31 December 2016. The individually impaired receivables related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered.

(c) Trade debtors that are not impaired

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

	2016	2015
	US$'000	*US$'000*
Neither past due nor impaired	**70,238**	73,858
Less than 1 month past due	**14,025**	17,633
1 to 3 months past due	**8,107**	2,554
More than 3 months past due	**7,813**	7,355
	29,945	27,542
	100,183	101,400

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

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12 Trade and other payables

	2016	2015
	US$'000	*US$'000*
Current		
Trade payables due to:		
– third party suppliers	**40,586**	42,852
– a joint venture	**326**	864
	40,912	43,716
Other payables and accrued charges	**55,308**	51,348
Dividends payable to ordinary shareholders	**89**	89
Dividends payable to holders of non-controlling interests	**–**	323
	96,309	95,476
Advances received from:		
– third party customers	**549**	1,217
– disposal of partial interests in a subsidiary	**–**	2,730
	96,858	99,423

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

	2016	2015
	US$'000	*US$'000*
Within 1 month	**19,093**	15,726
Over 1 month but within 3 months	**1,231**	2,216
Over 3 months but within 6 months	**210**	1,422
Over 6 months but within 1 year	**152**	186
Over 1 year	**20,226**	24,166
	40,912	43,716

13 Interest-bearing borrowings

As of the end of the reporting period, the interest-bearing borrowings were repayable as follows:

	2016	2015
	US$'000	*US$'000*
Within 1 year or on demand	**108,456**	55,086
After 1 year but within 2 years	**21,468**	91,727
After 2 year but within 5 years	**18,617**	37,647
	40,085	129,374
	148,541	184,460

As of the end of the reporting period, the interest-bearing borrowings were secured as follows:

	Note	**2016** ***US$'000***	2015 *US$'000*
Bank loans			
– secured	*(a)*	**43,605**	50,926
– unsecured	*(a)*	**64,415**	95,000
		108,020	145,926
Secured Otsuka Loans	*(b)*	**40,355**	38,270
Secured loan from SMFA		**166**	264
		148,541	184,460

(a) Bank loans

At 31 December 2016 the bank facilities of the Group were secured by land use rights and buildings held for own use with net book value of US$4,094,000 and US$72,743,000, respectively (2015: land use rights and buildings held for own use with net book value of US$4,478,000 and US$76,187,000, respectively).

(b) Otsuka Loans

The Company entered into a credit agreement (the "Credit Agreement") with Otsuka Medical Devices Co., Ltd. ("Otsuka Medical Devices"), a subsidiary of Otsuka Holdings Co., Ltd.. Pursuant to the Credit Agreement dated 15 December 2013, Otsuka Medical Devices agreed to provide to the Company certain credit facilities of up to US$200,000,000, consisting of three tranches of loans, namely, the Term A Loan, Term B Loan and Term C Loan (collectively, the "Otsuka Loans"). The Otsuka Loans bear interests on the outstanding principal amount thereof for the respective interest periods at a rate equal to LIBOR plus 1% per annum.

In January 2014, the Company fully drew down the Otsuka Loans. In January 2015, the Company fully repaid the Term A Loan and the Term C Loan in the aggregate principal amount of US$160,000,000 and related interests to Otsuka Medical Devices when they were due for repayment.

The remaining balance of the Otsuka loans at 31 December 2016 represents the Term B Loan, which is of a principal amount of US$40,000,000. Its holder could convert the outstanding amount and certain unpaid interest amounts of the Term B Loan into certain number of the Company's ordinary shares at any time prior to its maturity at an initial conversion price of HK$6.84 per share, subject to adjustments under certain terms and conditions of the Term B Loan. The Term B Loan was fully repaid in January 2017 when it was due for repayment.

The movement of the liability component and the derivative component of the Term B Loan is set out below:

	Liability component	**Derivative component**	**Total**
	US$'000	*US$'000*	*US$'000*
As at 1 January 2016	38,270	397	38,667
Changes in fair value recognised in profit or loss during the year	–	(374)	(374)
Interest charged during the year *(note 6(a))*	2,758	–	2,758
Interest paid during the year	(673)	–	(673)
As at 31 December 2016	40,355	23	40,378

14 Convertible bonds

In May 2014, the Company issued the convertible bonds in an aggregate principal amount of US$100,000,000 to GIC Special Investments Pte Ltd., which is wholly owned by Government of Singapore Investment Corp ("GIC"), with a maturity date of 11 May 2019 (the "GIC Convertible Bonds"). The GIC Convertible Bonds bear interest at LIBOR plus 1% on the outstanding balances. Pursuant to the terms of the GIC Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into fully paid ordinary shares of the Company at an initial conversion price of HK$6.84 per share, subject to adjustments under certain terms and conditions of the GIC Convertible Bonds.

In January 2016, the Company issued the convertible bonds in an aggregate principal amount of US$65,000,000 to Erudite Parent Limited and Owap Investment Pte Ltd., which is ultimately controlled by Carlyle Group L.P. and GIC, respectively, with a maturity date of 13 January 2021 (the "Carlyle Convertible Bonds"). The Carlyle Convertible Bonds bear interest at LIBOR plus 1% on the outstanding balances. Pursuant to the terms of the Carlyle Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into fully paid ordinary shares of the Company at an initial conversion price of HK$3.85 per share, subject to adjustments under certain terms and conditions of the Carlyle Convertible Bonds.

Based on the terms of the GIC Convertible Bonds and the Carlyle Convertible Bonds, these convertible bonds will be settled by exchange of a fixed amount of cash in US$ with a fixed number of the Company's equity instruments. In accordance with the Group's accounting policy, these convertible bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

The movement of the liability component and the equity component of the convertible bonds is set out below:

	Liability component *US$'000*	**Equity component** *US$'000*	**Total** *US$'000*
As at 1 January 2016	94,815	10,574	105,389
Upon the issuance of the Carlyle Convertible Bonds, net of the transaction costs	47,352	17,485	64,837
Interest charged during the year *(note 5(a))*	8,715	–	8,715
Interest paid during the year	(3,113)	–	(3,113)
As at 31 December 2016	147,769	28,059	175,828

Both the GIC Convertible Bonds and the Carlyle Convertible Bonds are subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenant, these convertible bonds would become payable on demand. The Group regularly monitors its compliance with the covenants. As at 31 December 2016, none of the covenants relating to the GIC Convertible Bonds and the Carlyle Convertible Bonds had been breached.

No conversion of the above convertible bonds had been occurred up to 31 December 2016.

BUSINESS OVERVIEW

Overview

With the accelerated ageing process of the Chinese population, the step-down promotion of new type technology and concept of diagnosis, and the increase of people's living standards brought by the national economic growth, the terminal demand of China's medical device industry continued to maintain rapid growth in 2016. In addition, the Chinese government has actively introduced a series of new policies for the continuous improvement of people's livelihood, enhancement of national health insurance and the ease of the burden of medical expenses on the whole society. During 2016, the state maintained the trend to focus on supporting the rapid development of domestic medical device industry and the supporting measures from relevant government departments continued to solidly promote the landing and implementation of industrial strategy. The review and approval system was further reformed, following the special review and approval system of innovative medical devices, the "Medical Equipment Priority Review Process" was introduced during the year to speed up the review and approval efficiency, and shorten the period for products to launch to market. Meanwhile, the ever-increasing stringent oversight on the medical industry, the further convergence of the laws and regulations with international standards and the "Clinical Trial Quality Management Regulations for Medical Devices" and other measures related to the production, clinical and post-launching supervision initiatives helped to improve the market access threshold, and speed up the integration of the industry. In international market, with the performance enhancement of domestic medical devices, China's medical devices industry has more opportunities to go abroad to embrace new development opportunities. The new policies and opportunities offer great support for domestic products and innovative products, and make pursuit on safe and effective quality, which will play a positive guide on the long-term, healthy and orderly development of medical devices industry, and will benefit the development of innovative, high quality, large-scale and internationalized enterprises.

As at 31 December 2016, there were seven business segments in the Group, namely, orthopedics, cardiovascular, endovascular, electrophysiology, neurovascular, surgical management and diabetes care and endocrinal management, which produce over 200 kinds of medical devices.

During 2016, the Group actively captured the upside potentials brought by the government policies and mechanism reform, and achieved a remarkable success with significant revenue increase in several business segments through advancing R&D process, optimizing sales channels, developing in emerging markets, integrating advantageous resources and improving operating efficiencies. Meanwhile, the Group continued significantly reducing the loss from the orthopedics business acquired in 2014 as scheduled and the business further recovered and grew steadily in a sound and orderly way. For the year ended 31 December 2016, the Group recorded a revenue of US$389.9 million, representing an increase of 3.7% from 2015, and the increase amounted to 6.6% excluding the foreign exchange impact. The Group successfully turned losses into a net profit of US$15.1 million for the year ended 31 December 2016 (profit attributable to equity shareholders: US$14.1 million) after two years' net loss since acquisition of the orthopedics business in early 2014.

For the year ended 31 December 2016, we derived 53.9% of our revenue from orthopedics devices, 35.4% from cardiovascular devices, 4.8% from endovascular devices, 1.8% from EP devices, 2.3% from neurovascular devices, 1.4% from surgical management, and 0.4% from diabetes care and endocrinal management. In 2016, the Group's leading position in the cardiovascular devices market was maintained, other business segments also attained good results and made increasingly notable contribution to revenue by virtue of product performance and efforts paid in market segments, and at the same time, made faster progress in the international market expansion of key products.

Steady Growth of Orthopedics Business

Our orthopedics devices business offers an extensive range of products that include reconstructive joints, spine and trauma, and other professional implants and equipment. In addition, the orthopedics Global Supply Center (the "GSC") established in 2015 provides centralized purchasing and logistic distribution services of surgical instrumentation for the business divisions of joints, spine and trauma in order to optimize the management of surgical instrumentation and consumables used in the implantation of our products.

In 2016, the third year after the acquisition of OrthoRecon business from Wright Medical Group Inc. (NASDAQ:WMGI) ("Wright Medical"), we focused on integrating the supply chain system of orthopedics business, establishing professional and stable sales channels, controlling manufacturing and operating costs, and at the same time accelerating the introduction of MicroPort orthopedics products into the PRC market. We successfully expanded the market of our orthopedics business and achieved growth. During the year, our global orthopedics business achieved a revenue of US$210 million, representing a year-on-year increase of 1.6% excluding the foreign exchange impact. Within this, the China orthopedics business achieved a rapid growth of 16.5% in overall revenue excluding the foreign exchange impact, and in particular revenue from joints products increased 32% excluding the foreign exchange impact, significantly above the average level of revenue growth in the industry.

For the international (non-PRC) orthopedics business, 2016 was a year during which the results of implementing various transformational measures started to show impact. The international orthopedics business recorded positive revenue growth for the first time in the past 7 years, recorded positive cash flows and EBITDA as planned and further narrowed losses, while also invested to improve the basic businesses of the Company and provided sustainable capabilities to turn losses into profits and sustainable growth in the future. We also successively enhanced our brand recognition through ways such as actively attending major industrial conferences, seeking cooperation with more well-known doctors and highlighting our new logo through celebrity endorsement. We enhanced the construction of sale channels in such key markets as Japan, the United States, France and Australia, constantly enhanced the product lines and created products with regional characteristics on the basis of the existing products, and improved surgical efficiency to seize more potential markets. More noteworthy is that our efforts to improve gross profit margin were proven to be effective in 2016, which was led by the sound execution of our cost reduction initiatives and improvement in the manufacturing processes.

The China orthopedics business, including joint, spine and trauma, and the GSC, witnessed rapid development in 2016. The Company sped up the pace of introducing U.S. orthopedics products into the PRC market through facilitating the access of orthopedics products to the PRC market. Meanwhile, the Company sped up in the popularization of the advanced concept of "Full Function, Faster" among Chinese doctors and patients through a series of medical education activities and the participation in major conferences held by third parties. The steady development of the GSC and the localization of devices and joint prosthesis further reduced the manufacturing cost and improved the competitiveness. As at 31 December 2016, SuperPath™ Micro Posterior Approach Total Hip Reconstruction Technique has covered nearly 200 hospitals in 23 provinces, municipalities and autonomous regions in PRC, 52 of which were newly developed in 2016, and the number of operations reached more than 120 per month. Our Evolution™ Medial-Pivot Knee System completed 144 operations successfully, which offered more solutions for patients, and helped reinforcing the brand image and increasing market share for the Group.

2016 is the first full year for the operation of the GSC. The GSC successfully guaranteed the demands for instruments from global orthopedics clients, and consistently improved the gross margin of the orthopedics business through the refinement and management of the supplier system. Meanwhile, the GSC also expanded value-added businesses, including the sales of customized instruments and relevant consumables, and initiated the diversified operation of businesses.

In 2016, the team on the localization of joint instruments has been preliminarily established. The production technology platform and the management information system platform for the production of instruments have been preliminarily established, which supported the operation of plants of spine and trauma businesses.

Cardiovascular Devices Business

Cardiovascular devices business offers products and services for the treatment of coronary artery related diseases. We are committed to develop, manufacture and commercialize market-leading coronary stents and the relevant delivery systems, along with dilatation catheters and accessories.

With our high quality product, the world's first and only target eluting stent, the Firehawk™ Coronary Rapamycin Target Eluting Stent ("DES") ("Firehawk™") and the cost-effective Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™"), and over 18 years' effort in cardiovascular product market, in 2016, our cardiovascular product business firmly occupied the market leading position. In 2016, our cardiovascular business achieved a revenue of approximately US$138 million, representing a year-on-year increase of 11.8% (excluding the foreign exchange impact), of which the stent business achieved a year-on-year increase of 15.5% (excluding the foreign exchange impact). Such growth was mainly attributable to the rapid growth of Firehawk™ in China and overseas markets and the steady advancement of Firebird2™.

In 2016, the revenue of Firehawk™ recorded a year-on-year increase of 127.0% (excluding the foreign exchange impact), of which the overseas sales revenue increased by 212.4% (excluding the foreign exchange impact). In 2016, Firehawk™ accounted for approximately 24.0% in the overall revenue of the Group's DES (2015: approximately 12.2%); Firehawk™ accounted for 16.4% in the overall delivered

sales volume of the Group's DES (2015: approximately 7.1%). In the domestic market, Firehawk™ covered more than 300 hospitals in 27 provinces, representing an increase of 94.7% from 2015. In the international market, Firehawk™ covered 26 countries, increased by 16 countries from 2015.

Firebird2™ continues to maintain its steady growth, which is attributable to our enhanced distribution channels and continued development of municipal hospitals. The sales of Firebird2™ currently cover more than 1,200 hospitals in 30 provinces, cities, autonomous regions and municipalities, representing a year-on-year increase of 8.5% in the number of hospitals.

In 2016, as we continued optimizing the supply chain process of cardiovascular devices, improving the quality while optimizing the unit production cost of the devices to ensure that the gross profit margin of devices remain stable in spite of the continuous pressure experienced by bidding price.

During the year, the clinical trial enrollment for TARGET All-Comers ("TARGET AC") European post-market clinical trial for Firehawk™ was under smooth progress. The clinical trial is composed of 1,656 patients and is conducted in 22 hospitals in 10 European countries. The enrollment of patients was completed in October 2016, four months ahead of plan.

Endovascular Devices Business

The endovascular devices business focuses on providing a range of products and services for the interventional treatment of thoracic and abdominal aortic aneurysm, peripheral vascular disease, aortic dissection, and other endovascular related diseases.

As at 31 December 2016, the product categories of endovascular devices include TAA/AAA Stent Graft System (Hercules™ Low Profile, Hercules™-B and Aegis™), Hercules™ Balloon Dilation Catheter, CRONUS™ Surgical StentGraft System and CROWNUS™ Peripheral Stent System. In 2016, with their stable performance, reasonable prices and effective sales strategies, the endovascular products of MicroPort maintained a market share of approximately 25% in China, ranked second in terms of the market share.

In 2016, the endovascular devices business maintained strong growth from 2015. It increased by 23.6% excluding the foreign exchange impact, higher than the growth rate of approximately 15% in the endovascular abdominal aortic aneurysm treatment market in China. It is mainly attributed to the continuous rapid growth of the endovascular abdominal aortic aneurysm treatment market in China and our in-advance market layout and delicate cultivation for markets in tiers 2 and 3 cities. During the year, with extensively entering into hospitals in tier 1 cities, our principal products covered most of the hospitals qualified for operations at the county level. We newly developed over a hundred of hospitals during the year. Besides, the new generation of Hercules™-T Low Profile Thoracic Branch Stent-Graft system performed well in clinical trials after launching into the market, which strengthened the competitiveness of our endovascular products in the thoracic aortic aneurysm and endovascular treatment market and expanded our market share in the relevant industry in China.

In 2016, the endovascular devices business introduced strategic investors with professional background, which has significant benefit to the long-term sustainable development of the business.

EP Devices

The primary business of the EP devices segment is manufacturing and marketing of minimally invasive medical devices for the intervention treatment of electrophysiological diseases. We currently have a complete set of solutions for treatment of tachyarrhythmia supraventricular tachycardia and atrial fibrillation radiofrequency ablation, and will provide physicians and patients with a more comprehensive EP product instrument portfolio.

Remarkable accomplishment has been achieved by our EP devices segment in aspects such as market exploitation and revenue in 2016, in that the revenue increased significantly by 28.1% (excluding the foreign exchange impact) from 2015 while the number of hospital covered and the number of distributor also increased significantly, as the significant results were brought by market exploitation. Both the number of hospitals covered and the number of distributors increased greatly. For domestic market, it newly developed 68 hospitals during the year. For international market, it newly developed 5 hospitals and its products are available for sale in Greece, Turkey, Pakistan and Dominica.

In 2016, Columbus™ 3D EP Navigation System and FireMagic™ Cold Brine Irrigated Ablation Catheter, China's only magnet location full curve visualization and only 3D EP Navigation System entering into European market, successively gained approval for market launch from the CFDA. With the entity platform for the 3D Navigation and Irrigated Ablation Treatment for rapid-developed atrial fibrillation and other arrhythmias, MicroPort EP is able to provide physicians with a comprehensive solution for the diagnosis and treatment of complex arrhythmias. In the future, the EP sector will focus on the treatment of arrhythmias and the expansion of relevant diagnostic catheters, RF ablation catheters as well as other ancillary devices for operations to build complete solutions to the diagnosis and treatment of electrophysiological heart diseases.

In 2016, the EP business received approval from the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Board for seeking a separate quotation on the National Equities Exchange and Quotations, which shall provide the EP business with a more effective financing platform for its development in the future.

Neurovascular Devices Business

The neurovascular business segment specializes in providing products and services for the treatment of neurovascular diseases including Cerebral Aneurysms, Intracranial Atherosclerotic Diseases ("ICAD"), Carotid Artery Diseases ("CAD") and other neurovasculature related diseases. Two neurovascular devices were under sale in 2016. APOLLO™ Intracranial Stent System ("APOLLO™") for cerebral ischemia treats intracranial atherosclerotic cerebrovascular stenosis; and WILLIS™ Intracranial Stent Graft System is the only stent graft system for intracranial cerebral aneurysms approved by the CFDA. In addition, many products under R&D will diversify the neurovascular product line.

In 2016, the neurovascular business continued its significant stride in revenue and profitability increasing with a revenue increase of 19.5% year on year excluding the foreign exchange impact. APOLLO™, which has been introduced to the market for 12 years, still maintained a growth rate of 34.3% excluding the foreign exchange impact in 2016 for its revenue. This is attributable to the leading edge of sales channels brought by the pioneer status of MicroPort in this field. In April 2016, WILLIS™ was included in Shanghai's Drug Reimbursement List and patients can reimburse 80% of the materials cost, which reduced the economic burden of patients significantly and will facilitate this stent product with the highest reimbursement amount in exploring more markets. In 2016, WILLIS™ newly developed 91 hospitals with a significant increase in the number of operation.

Surgical Management Business

The surgical management business focuses on extracorporeal circulation products and occlusion series products used for Congenital Heart Disease. The products of surgical management include extracorporeal circulation series consumable products such as Oxygenation System (artificial lungs), occlusion series products (Atrial Septal Defect Occluder and Delivery System, Ductus Arteriosus Occluder and Delivery System, Ventricle Septal Defect Occluder ("VSD Occluder") and Delivery System) as well as general surgical polypropylene herniorrhaphy series products.

In 2016, polypropylene herniorrhaphy series products obtained the registration certificate from the CFDA. The products are common general surgical medical devices and are expected to bring addition profits rapidly with their outstanding performance and the brand advantages and channels of MicroPort.

The "New Technology in Minimally Invasive Surgical Treatment of Heart Diseases and the Clinical Application" project jointly applied with the Fourth Military Medical University was awarded the second prize of the National Science and Technology Progress Award in 2016.

Diabetes Care And Endocrinal Management Business

The diabetic and endocrinal management business primarily focuses on the development and manufacturing of medical devices for management, supervision and treatment of diabetes and endocrine disease. The major products include La Fenice™ Insulin pump, a medical aid for treatment of diabetics, and La Fenice™ Hypophyseal Hormone Infusion Pump, an endocrinal management device used for the treatment of Idiopathic Hypogonadotropic Hypogonadism ("IHH"), which is also known as Kallmann Syndrome.

For the diabetic business, as the product design updates of La Fenice™ Hypophyseal Hormone Infusion Pump and Insulin pump are still under progress, plus the integration and adjustment of sales channels, the sales revenue indicated a drop. However, as their sales volume accounted for only 0.4% of the Company's overall revenue, the impact on the Company is limited.

Joint Venture – MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MSC")

The MSC was founded by the Group and Sorin Group with a shareholding of 51% and 49% respectively. The MSC has been advanced in an orderly way following the path of "Serving China", "Made-in-China" and "Innovated-in-China" since its establishment. In 2016, MSC's 3rd year of operation, it principally derived its business revenue from the sales of Sorin pacemakers under the strategy of "Serving China". Since the introduction of the first domestic production line for pacemakers at internationally advanced levels in June 2015, the business of MSC has entered into the "Made-in-China" period. During the year, the made-in-China pacemaker carried out the various preparation work of the application of approval of market launch as planned. Meanwhile, the in-house R&D projects went smoothly, and the first time in-human enrollment in FIM Clinical Trial of "Made-in-China" BonaFire™ Pacing Lead was completed.

Research and Development ("R&D")

Being a R&D-driven medical device company, we understand that the continuous development of novel products can enhance the enterprise's competitiveness and advance its long-term sustainable development, and more importantly, provide global patients with medical devices which are of better performance and lower price such that more patients' life can be saved. Therefore, we continue to invest in our in-house R&D capability, extensively discover and train talents, cooperate with international technology pioneers so as to maintain the pioneering and vitality of R&D technology. In 2016, our R&D projects were in an orderly way of progress. At the end of 2016, there were 55 projects formally set up and under development. Several R&D projects were enrolled into the national or municipal supporting plans and were funded by the government.

Another innovative cardiovascular device independently researched and developed by us, the Firesorb™ Bioresorbable Rapamycin Target Eluting Coronary Stent System (Firesorb™), has preliminarily proved its safety and effectiveness to the market by its excellent clinical trial results: in April 2016, it completed the enrollment of all cases for FUTURE-I's first time in-human clinical trial. Meanwhile, Firesorb™'s application for CFDA's special approval regarding innovative medical device was passed in June last year and was granted the "Green Channel" Status of special review procedure. In March 2017, the distribution of the imaging results of the 12-month FUTURE-I study fully proved Firesorb™'s safety and effectiveness for preliminary clinical application. Compared with permanent metal stent, the bioresorbable stent is made of special degradable materials and is expected to be fully absorbed by human bodies through degradation a few years after implantation so that the patient's vascular structure and diastolic and systolic functions can be fully restored to the natural state. It is expected that Firesorb™ will be an important supplement of the Company's existing metal coronary stent products in providing more solutions in treatment of coronary artery diseases and benefit more patients.

In 2016, our VitaFlow™ Transcatheter Aortic Valve and its Delivery System ("TAVI") has completed the large scale patient enrollment for all the clinical trials with 30 days of outstanding clinical results. It has been granted "Green Channel" Status for CFDA approval.

In 2016, great breakthroughs were achieved in R&D projects of endovascular devices. Our Castor™ Thoracic Endovascular Stent Graft system and Reewarm™ PTX Drug Balloon Dilation Catheter were granted "Green Channel" Status for approval as national innovative products. The Minos™ Ultra Low Profile abdominal aortic stent-graft system, which is our next generation (AAA) abdominal aortic stent graft and delivery system, has successfully completed enrollment for pre-launching clinical trials with outstanding performance in the follow-up visit for six months. The Hercules™ Balloon Dilation Catheter and the Reewarm™ PTX Peripheral Balloon Dilation Catheter obtained the EU CE certification. The new generation of surgical stent graft system completed its first clinical implant, marking a solid step in the surgical stent graft system product with completely proprietary intellectual property rights.

During the year, the neurovascular devices segment's Tubridge™ vascular reconstruction device ("Tubridge™") for the treatment of large aneurysms, was granted "Green Channel" Status for CFDA's approval for innovative products. The device has completed the clinical trial and submitted the application for registration.

MicroPort's robot business is committed to the cutting-edge study and technology integration in the application of robots, intelligent controlling and information industry. It provides medical products which saves patients' life and improve their life quality in an innovative way. We achieved several great breakthroughs in some key technologies for our surgical robot project in 2016. With the support of various strategic plans and supporting policies introduced by the Chinese government, the Chinese surgical robot industry will see excellent opportunities for healthy and sustainable development, which will benefit our surgical robot project for long terms.

Manufacturing

In 2016, the Company continued to focus on the refined management of the supply chain process, automation and digitization of the production process, introduction of the safety culture and the effective implementation of energy saving and emission reduction.

During the year, the precise tubing center of the supply chain system provided the subsidiaries and project teams of the Group with more than 500 kinds of self-designed and developed tubes with different specifications in total, enhanced the rate of qualified products, reduced the wastage of raw materials and optimized the formulation of the raw materials of tubes so as to reasonably optimizing the product cost while improving product quality. With the completion of the construction of the self-developed production data and equipment status information collection and analysis management platform, unattended automatic operation of certain equipment and real-time monitoring were achieved.

In 2016, the Company continued to improve the EHS management system and implement the systematic management process: we compiled and updated the text of safety contingency plans; we enhanced all staff's safety awareness and ability, fostered the cultivation of safety culture and guaranteed the emergency manging ability through implementing safety-themed promotions, organizing large-scale safety inspections, carrying out EHS special training and preparing drill activities; we implemented the management of the troubleshooting system for potential hazards to guarantee safety by carrying out monthly inspection and record in order to enhance alertness and optimize the methods of handling; we implemented safety inspection by conducting various types of safety inspection (including flight

inspection) and being inspected by the government to ensure a steady safety status and that the potential risks are dealt with effectively; we implemented the preventive work of occupational hazards by initiating the work of testing, evaluation and health checkup in respect of occupational hazards in order to protect our staff from occupational hazards.

In 2016, no major safety accidents happened in the Company, and all government inspections on environment protection, safety supervision, and fire prevention were passed.

Quality Assurance ("QA")

We give priority to "quality" in the values of MicroPort as we know that the quality of our every product has close bond with human life. We have an independent quality and regulatory business department and devote significant resources to quality management of our products through monitoring every stage of our quality control processes including research and development, product design, purchase of raw materials, manufacturing, product releases, product feedbacks and risk management, so as to guarantee the consistency of product quality which meets our quality management standards and policies. The quality and regulatory business department also conducts inspection on our products both during and after the manufacturing process, including raw material inspection, manufacturing process inspection and final products delivery inspection.

In 2016, in order to foster the simultaneous development of quality management system of each of the subsidiary within the Group and identify the room for improvement of quality management system, the form of flight inspection was adopted to carry out internal quality management system review in the subsidiaries of the Group and the GMP compliance special check was conducted in 12 subsidiaries of the Group at the same time. During the year, trainings on quality laws and regulations, and forum exchange activities were organized to enhance the Group's awareness of quality laws and regulations, improve the Group's quality management system and ensure the compliance with quality laws and regulations. In 2016, the Company successfully passed 10 external inspections, and the pass rate of the quality system in external inspections was 100%.

As for MicroPort Orthopedics, the base of which was situated in Arlington, Tennessee, US, it maintains a comprehensive quality system that is certified to the European standards ISO:9001 and ISO:13485 and to the Canadian Medical Devices Conformity Assessment System ("CMDCAS"). As a medical device enterprise, MicroPort Orthopedics has registered with and certified by the U.S. Food and Drug Administration which require periodic review and routine inspections to determine if MicroPort Orthopedics has sufficient systems in place to ensure product safety and efficacy.

Competition

The environment in which we operate is continuously evolving. As the domestic market leader among the PRC companies manufacturing vascular stents, the Group is facing competition both domestically and internationally.

The Chinese government has introduced new policies in recent years, which expressly supported domestic innovative products while strigently regulated market activities. It will has a positive guiding effect on the long-term development of the industry and make the competition more favorable to enterprises owning innovative products and following regulations, which completely match the operation concept of the business. As a leader in home-made products, it will obtain more growth benefits. The Group will further strengthen its leading position in the domestic medical devices market and continue overseas expansion through innovation and investment in R&D to expand the product portfolio.

Intellectual Property

Intellectual property, an intangible asset of the Company, is an important factor to enhance our competitiveness in the medical devices market. Thus, we strive to provide the highest quality medical devices and excellent service through continuous innovation, persistently build brands belonging to patients and doctors as well as constantly transform research and development results into intellectual properties. In 2016, we applied for 170 patents and 82 trademarks. 9 core technical secrets were identified during the year. At the end of 2016, we have a total of 1,807 patents (including under application) covering 26 countries and 941 trademarks covering 64 countries.

FINANCIAL REVIEW

OVERVIEW

In face of the challenges of more fierce world-wide competition in the rapidly growing medical device industry at home and abroad, we have successfully achieved a revenue growth of 3.7% for the year ended 31 December 2016 and maintained our leading position in China. We continued to diversify our product portfolio and continued our globalization strategy with non-China regions contributing 54% of the total revenue. We aim to continuously bring our innovations, technologies and services to millions of global patients and become a patient oriented global leading enterprise in the sector of high-tech minimally invasive medical devices.

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

REVENUE

US$'000	**Financial year ended**		Percent change	
	2016	2015	in US$	excluding the foreign exchange impact
Orthopedics devices business	**210,158**	205,237	2.4%	1.6%
– US	**87,872**	87,527	0.4%	0.4%
– EMEA	**58,795**	59,050	(0.4%)	0.6%
– Japan	**29,631**	27,914	6.2%	(4.5%)
– PRC	**10,573**	9,691	9.1%	16.5%
– Others	**23,287**	21,055	10.6%	11.4%
Cardiovascular devices business	**137,941**	132,553	4.1%	11.8%
Endovascular devices business	**18,892**	16,150	17.0%	23.6%
Electrophysiology devices business	**6,961**	5,813	19.7%	28.1%
Neurovascular devices business	**8,834**	7,851	12.5%	19.5%
Surgical devices business	**5,535**	6,102	(9.3%)	(2.9%)
Diabetes devices business	**1,600**	2,138	(25.2%)	(20.6%)
Total	**389,921**	375,844	3.7%	6.6%

Our revenue for the year ended 31 December 2016 was US$389.9 million, increasing by 3.7% compared to US$375.8 million for the year ended 31 December 2015. Our reported revenue was adversely impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries, to US$, the presentation currency of the Group due to the strengthening of US$ against RMB. Excluding the foreign exchange impact, our revenue growth rate was 6.6%. Such an increase was primarily driven by strong sales performance of the cardiovascular business. The following discussion is based on our seven major business segments.

– *ORTHOPEDICS DEVICES SEGMENT*

Our orthopedics devices segment achieved a revenue of US$210.2 million for the year ended 31 December 2016, representing a growth of 1.6% excluding the foreign exchange impact and 2.4% in US$ compared to the year ended 31 December 2015. Such increase was mainly attributed to (i) revenue in the United States market achieved 0.4% growth in 2016 excluding the foreign exchange impact, as it has been stabilizing since we acquired the OrthoRecon business in January 2014. The Group has successfully executed the strategy of stabilizing and growing in the US market, including more effective product promotion, medical education and recruitment of experienced competitive sales representatives; (ii) revenue in the PRC market achieved a growth of 16.5% excluding the foreign exchange impact compared to the year ended 31 December 2015. In particular, its joints revenue grew 32% excluding the foreign exchange impact through continued launching to more hospitals across provinces, attracting more distributors and gaining greater market recognition from

Chinese surgeons, which is slightly offset by the decrease in revenue of spine and trauma products due to internal restructuring; (iii) the EMEA market stabilized with 0.6% growth excluding the foreign exchange impact despite unfavorable macroeconomic conditions; (iv) revenue in Japan declined by 4.5% excluding the foreign exchange impact as a result of the continued adverse impact of reduced reimbursement rates at Japanese hospitals, despite increased unit sales; and (v) revenue in other markets achieved significant growth of 11.4% excluding the foreign exchange impact driven by new customer expansion in Latin America coupled with strong business growth in Australia.

– *CARDIOVASCULAR DEVICES SEGMENT*

Our cardiovascular devices segment achieved a revenue of US$137.9 million for the year ended 31 December 2016, representing a growth of 11.8% excluding the foreign exchange impact or a growth of 4.1% in US$ compared to the year ended 31 December 2015. Such increase was mainly attributable to (i) Firehawk™ penetrating into an increasing number of hospitals across more Chinese provinces and more overseas countries, with its global revenue achieving 127.0% growth excluding the foreign exchange impact compared with the year ended 31 December 2015; and (ii) Firebird2™ sales in the PRC market maintaining an organic growth of 1.4% excluding the foreign exchange impact through advanced distribution channels

– *ENDOVASCULAR DEVICES SEGMENT*

Our endovascular devices segment achieved a revenue of US$18.9 million for the year ended 31 December 2016, representing a growth of 23.6% excluding the foreign exchange impact or a growth of 17.0% in US$ compared with the year ended 31 December 2015. Such growth was mainly attributable to the following factors: (i) rapidly expanding endovascular market in China in 2016; (ii) positive market recognition and enhanced competitiveness of endovascular products in thoracic aortic aneurysm and endovascular treatment market as a result of market launch of Hercules™ Low Profile products; and (iii) in response to government guideline, establishing customer foundations in second-and third-tier cities through effective promotion mechanisms.

– *EP DEVICES SEGMENT*

Our EP devices segment recorded a revenue of US$7.0 million for the year ended 31 December 2016, representing a growth of 28.1% excluding the foreign exchange impact or a growth of 19.7% in US$ compared to the year ended 31 December 2015. Such increase was mainly attributable to the significant expansion of our distribution network and hospital coverage, as well as new product sales of Columbus™ 3D EP Navigation System and FireMagic™ 3D cold brine irrigated ablation catheter, which were launched in 2016.

– *NEUROVASCULAR DEVICES SEGMENT*

Our neurovascular devices segment recorded a revenue of US$8.8 million for the year ended 31 December 2016, representing a growth of 19.5% excluding the foreign exchange impact or a growth of 12.5% in US$ compared to the year ended 31 December 2015. Such growth was mainly

attributable to the organic growth of 34.3% excluding the foreign exchange impact in APOLLO™ Intracranial Stent System driven by its greater market recognition.

– *SURGICAL MANAGEMENT SEGMENT*

The segment of surgical management devices recorded a revenue of US$5.5 million for the year ended 31 December 2016, representing a decline of 2.9% excluding the foreign exchange impact or a decline of 9.3% in US$ compared to the year ended 31 December 2015. The decrease was primarily due to the reduced competitiveness of our existing membrane oxygenation system, while the next generation of product is still under development.

– *DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT*

Our diabetes care and endocrinal management segment achieved a revenue of US$1.6 million for the year ended 31 December 2016, representing a decline of 20.6% excluding the foreign exchange impact or a decrease of 25.2% in US$ compared to the year ended 31 December 2015. The decrease was mainly due to the restructuring of our distribution channels and ongoing product design upgrade of La Fenice™ Hypophyseal Hormone Infusion pump and Insulin pump.

COST OF SALES

For the year ended 31 December 2016, our cost of sales was US$118.2 million, representing a 4.1% decrease as compared to US$123.3 million for the year ended 31 December 2015. Such decrease was primarily attributable to lower manufacturing unit cost.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit increased by 7.6% from US$252.5 million for the year ended 31 December 2015 to US$271.7 million for the year ended 31 December 2016. Gross profit margin is calculated as gross profit divided by revenue. Our gross profit margin increased to 69.7% for the year ended 31 December 2016 as compared to 67.2% for the year ended 31 December 2015, primarily as a result of lower manufacturing costs of the OrthoRecon business, Firehawk™ and Firebird2™.

OTHER REVENUE AND OTHER NET INCOME

We had other revenue of US$13.3 million and other net income of US$7.3 million for the year ended 31 December 2016, while other revenue and other net income were US$12.2 million and US$3.3 million, respectively, for the year ended 31 December 2015. The increase in other revenue was attributed to the increase in government grant, and the increase of other net income was primarily attributable to the recording of increased foreign exchange gains for the year ended 31 December 2016 compared to the year ended 31 December 2015.

RESEARCH AND DEVELOPMENT COSTS

R&D costs decreased by 14.0% from US$60.4 million for the year ended 31 December 2015 to US$51.9 million for the year ended 31 December 2016. Such decline was mainly because several R&D projects reached the development stage during 2016 and subsequent costs incurred in the development stage for these projects started to be capitalized and recorded in intangible assets.

DISTRIBUTION COSTS

Distribution costs increased by 0.6% from US$127.7 million for the year ended 31 December 2015 to US$128.5 million for the year ended 31 December 2016. Such increase was mainly attributable to (i) increase in bonus to the sales representatives for the promotion of the orthopedics business; and (ii) increase in post-launching clinical trials costs in order to promote Firehawk™ in the domestic market.

ADMINISTRATIVE EXPENSES

Administrative expenses remained stable, with a decrease of 1.2% from US$65.0 million for the year ended 31 December 2015 to US$64.2 million for the year ended 31 December 2016. The decrease was mainly attributed to the reduction of staff cost through continued optimization of organizational structure mainly in the OrthoRecon business.

OTHER OPERATING COSTS

Other operating costs decreased by 62.8% from US$4.9 million for the year ended 31 December 2015 to US$1.8 million for the year ended 31 December 2016. The decrease was mainly attributable to the decrease of post-acquisition integration related expenses.

FINANCE COSTS

Finance costs increased from US$14.8 million for the year ended 31 December 2015 to US$16.7 million for the year ended 31 December 2016. The increase was mainly driven by the newly issued convertible bonds.

INCOME TAX

Income tax increased from US$2.8 million for the year ended 31 December 2015 to US$10.2 million for the year ended 31 December 2016. This is primarily due to (i) the increase in profit before tax of the PRC subsidiaries in 2016; and (ii) more deductible items of the PRC subsidiaries in the prior year.

No deferred tax assets had been recognized for tax losses and deductible temporary difference of loss-making entities as of 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2016, we had cash and cash equivalents of US$123.7 million, as compared to US$99.5 million as of 31 December 2015. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

Total borrowings of the Group, including interest-bearing borrowings and convertible bonds, as of 31 December 2016 were US$296.3 million, with an increase of US$17.0 million as compared to US$279.3 million as of 31 December 2015. As of 31 December 2016, the gearing ratio (calculated by dividing total borrowings by total equity) of the Group remained constant at 86%, while that as of 31 December 2015 was 88%.

NET CURRENT ASSETS

Our net current assets as at 31 December 2016 were US$147.4 million, as compared to US$166.6 million as at 31 December 2015.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from sales, purchases, borrowings and lendings which give rises to receivables and payables that are denominated in a foreign currency (mainly RMB, Euro and Japanese yen). For the year ended 31 December 2016, the Group recorded a net exchange gain of US$6.7 million, as compared to an exchange gain of US$4.3 million for the year ended 31 December 2015. The Group did not have any significant hedging arrangements to manage foreign exchange risk but has been actively monitoring and overseeing its foreign exchange risk.

CAPITAL EXPENDITURE

For the year ended 31 December 2016, the Group's total capital expenditure amounted to approximately US$65.7 million, which was used in (i) construction of buildings; (ii) acquiring equipment and machineries; and (iii) expenditures for R&D projects under development stage.

CHARGE ON ASSETS

As at 31 December 2016, for the purpose of securing the Otsuka Loans with a carrying value of US$40.4 million, the Group had pledged (i) the assets of MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., and MicroPort Direct LLC; (ii) the real property owned by MicroPort Orthopedics Inc.; (iii) the equity interests in MicroPort Scientific Cooperatief U.A., MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., MicroPort Direct LLC, Shanghai MicroPort Medical (Group) Co., Ltd. ("MicroPort Shanghai"), MicroPort Orthopedics Japan K.K., MicroPort Scientific SAS, MicroPort Scientific S.R.L., MicroPort Orthopedics NV, MicroPort Scientific Ltd. and MicroPort Scientific GmbH; and (iv) the equity interest, title and interest in certain assets held by MicroPort Orthopedics Japan K.K..

The Group had also pledged its manufactory buildings, headquarter buildings and land use rights held for own use for the purpose of securing a long term loan from Shanghai Municipal Financial Administration with a carrying value of US$0.2 million and bank loans of US$43.6 million.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group has issued a guarantee of RMB30,000,000 (equivalent to US$4,325,000) (2015: nil) in respect of a banking facility granted by a bank to MSC, the Group's joint venture. As at 31 December 2016, the banking facility was utilised to the extent of RMB7,500,000 (equivalent to US$1,081,000).

As at the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Group under the above guarantee. No provision was therefore made in this respect as at 31 December 2016.

SUBSEQUENT EVENTS

On 10 March 2017, the Group entered into equity transfer agreements with two third parties, pursuant to which, the Group agreed to transfer an aggregate of 9.81% equity interests in MicroPort Endovascular (Shanghai) Co., Ltd. ("MP Endo") at a cash consideration of RMB181.5 million. Upon the completion of the equity transfer transactions, MP Endo will remain as a subsidiary of the Group.

PROSPECT

With the development of China's economy, increased investment from governments in social medical insurance and gradual improvement in people's health awareness, the medical devices market in the PRC has been growing rapidly to provide an opportunity for fast development of the Group's business. At the same time, such fast development also has attracted more and more multinational corporations to enter into this market, resulting in more fierce competition. In order to compete in this fast growing market, we will continuously perform proactive strategies, including but not limited to:

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

We will take advantages of our brand recognition and sales distribution network in domestic market to further reinforce the expansion in the PRC market to maintain and strengthen our leading position in the PRC medical devices market.

2. Deepen our internationalization

In 2017, we will initiate the clinical registration work for the two major products of Lombard Medical, Inc. (NASDAQ: EVAR), which entered into a strategic cooperation agreement with us in December 2016. At the same time, MP Endo will produce the components for the products, which will greatly reduce its manufacturing cost and enhance its market competitiveness. Meanwhile, we will continue to focus on the development status of the international forefront medical device technology in order to search for projects which match the Company's strategies to achieve a globalized layout.

3. **Developing and improving our existing products with diversification of products through innovation**

   We will further develop and improve the performance and manufacturing process of our existing products, and foster firm R&D activities to develop new generation of our products, actively advance the clinic trial and approval of our new products and thus diversify our product offering and provide a comprehensive portfolio of medical devices to physicians and patients.

4. **Promoting reform of management system**

   We will promote reform of management system to integrate resources, streamline processes, and optimize management structure so as to enhance competitiveness and risk resistance capability of the Company.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2016 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

CORPORATE GOVERNANCE PRACTICES

The Group strives to maintain high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability.

Throughout the year ended 31 December 2016, the Company complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the exceptions as addressed below:

- 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 was appointed as the chairman of the Company, who 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 efficacy 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.

- Mr. Zezhao Hua ("Mr. Hua"), an independent non-executive Director of the Company, retired by rotation at the annual general meeting held on 27 June 2016 and did not offer himself for re-election as a Director for personal health reasons. Upon retirement of Mr. Hua as an independent nonexecutive Director, the Board comprised one executive director, four non-executive directors and two independent non-executive directors. As a result, the number of independent non-executive directors and the audit committee (the "Audit Committee") members fell below the minimum number and other relevant requirements under Rule 3.10(1), Rule 3.10A and Rule 3.21 of the Listing Rules. The composition of the nomination committee (the "Nomination Committee") did not meet the requirements under the Code Provision A.5.1 of the CG Code due to the same reason. In order to comply with such requirements, the Company appointed Mr. Chunyang Shao to act as independent non-executive Director and to fill up the vacancy of the Audit committee and the Nomination Committee on 23 September 2016.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Corporate Governance Code.

AUDIT COMMITTEE

The Audit Committee comprises three members:

Mr. Jonathan H. Chou *(Chairman)*
Mr. Norihiro Ashida
Mr. Zezhao Hua *(Retired on 27 June 2016)*
Mr. Chunyang Shao *(Appointed on 23 September 2016)*

The Company established an audit committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code. The terms of reference were revised on 27 June 2016 and has been made available on the websites of the Stock Exchange and the Company. Two of the members are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- Review of the financial information of the Group;

- Review of the relationship with and the terms of appointment of the external auditors; and

- Review of the Company's financial reporting system, internal control system and risk management system.

The Audit Committee oversees the internal control system and risk management system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2016, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for transactions in the Company's securities throughout the financial year ended 31 December 2016.

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

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company in 2016.

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

Pursuant to a share award scheme approved by the Board on 26 August 2011, the Company purchased through the trustee of the share award scheme, a total of 10,515,000 shares of the Company at cash consideration of US$5,774,000 on the Stock Exchange for the year ended 31 December 2016.

Save and except for the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 3 December 2016, the Company and its wholly-owned subsidiary MicroPort Endovascular CHINA Corp. Limited ("MicroPort Endovascular CHINA"), MicroPort Shanghai and MicroPort (Shanghai) Medical Scientific Investment Co., Ltd. (微創(上海)醫療科學投資有限公司) (together the "Sale Side Companies") entered into the equity transfer agreements with Shanghai Lianmu Enterprise Management Center (Limited Partnership) (上海聯木企業管理中心(有限合夥)), and Zhangjiang Science & Technology Venture Capital Co., Ltd. (上海張江科技創業投資有限公司), respectively, pursuant to which MicroPort Endovascular CHINA agreed to transfer an aggregate of 12% of the equity interest in MP Endo, a non-wholly-owned subsidiary of the Group, to the above mentioned investors. On the same day, the Sale Side Companies and MP Endo entered into a capital increase agreement with,

among others, Shanghai Jiushen Private Equity Limited Partnership (上海久深股權投資基金合夥企業(有限合夥)) ("Jiushen"), an independent third party, pursuant to which Jiushen agreed to subscribe for approximately 1.92% of the enlarged share capital of MP Endo at a consideration of RMB35.55 million. The net proceeds (after deducting relevant transaction costs and expenses) raised from the above transactions expect to be approximately RMB232 million, which will be used to optimize the financial structure of the Company and as marketing and research and development expenses as well as general working capital of the MP Endo. Upon the completion of the above mentioned disposal transactions, MP Endo will remain as a subsidiary of the Company and its operating results, assets and liabilities will continue to be consolidated in the Company's consolidated financial statements. Details of the disposal transactions were disclosed in the announcement of the Company dated 4 December 2016.

On 19 December 2016, the Company's subsidiaries MicroPort NeuroTech Corp. and MicroPort NeuroTech CHINA Corp. Limited entered into an investment agreement (the "Investment Agreement") with Lombard Medical, Inc. ("Lombard"), an exempted company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on NASDAQ under the code EVAR. Pursuant to the Investment Agreement, MicroPort NeuroTech Corp. agreed to subscribe for an aggregate of 8,064,516 subscription shares at the subscription price of US$0.62 per subscription share with a total consideration of US$5 million; and MicroPort NeuroTech CHINA Corp. Limited agreed to subscribe for the convertible bonds issued by Lombard in the principal amount of US$10 million. Details of the investments in Lombard were disclosed in the announcement of the Company dated 19 December 2016.

Save as disclosed above, during the year, there was no material acquisition or disposal of subsidiaries and associated companies by the Company.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the financial year ended 31 December 2016 as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the existing shareholders.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on 20 June 2017. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HKD1.9 cent per share (the "Share") for the year ended 31 December 2016 to the shareholders whose names appear on the register of members of the Company on Wednesday, 28 June 2017 and also to recommend the offer to the shareholders the right to select as an alternative, to receive such final dividend wholly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the AGM and the granting by the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued pursuant thereto.

Once the relevant resolution is passed at the AGM, the proposed final dividend is expected to be paid on or about Tuesday, 15 August 2017. Dividend warrants and share certificates for new shares to be issued under the Scrip Dividend Scheme will be despatched by ordinary mail on or about Tuesday, 15 August 2017. The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 December 2016.

On condition that the payment of the above final dividend is approved by the shareholders at the AGM, a circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders on or about Friday, 14 July 2017.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the AGM

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 15 June 2017 to Tuesday, 20 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 14 June 2017 (Hong Kong Time), being the last registration date.

(b) For determining the entitlement to the proposed final dividend

The proposed final dividend for the year ended 31 December 2016 is subject to approval by the shareholders at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 26 June 2017 to Wednesday, 28 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 23 June 2017 (Hong Kong Time), being the last registration date.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company at http://www.microport.com.cn and the Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk. The 2016 annual report of the Company will be despatched to shareholders in due course and will also be available at the websites above at the same time.

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

Shanghai, the People's Republic of China, 29 March 2017

As at the date of this announcement, the executive Director is Dr. Zhaohua Chang; the non-executive Directors are Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji, Ms. Weiwei Chen, and Ms. Janine Junyuan Feng; and the independent non-executive Directors are Mr. Jonathan H. Chou, Dr. Guoen Liu, and Mr. Chunyang Shao.