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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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of MicroPort Scientific Corporation (stock code: 00853) (the "Company" or "MicroPort") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2017 (the "Reporting Period"), which have been reviewed by the Company's audit committee (the "Audit Committee"). The financial highlights of the Group during the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended 30 June		
	2017	2016	Change
	US$'000	*US$'000*	
	(unaudited)	(unaudited)	%
Revenue	**217,339**	198,556	9.5%
Gross profit	**158,344**	136,961	15.6%
Profit for the period	**20,614**	5,535	272.4%
Profit attributable to equity shareholders	**21,372**	4,689	355.8%
Earnings per share			
Basic (in cents)	**1.50**	0.33	354.5%
Diluted (in cents)	**1.46**	0.33	342.4%

During the Reporting Period, the Group successfully achieved a revenue of approximately US$217.3 million, representing a growth of 12.5% (excluding the foreign exchange impact) and a growth of 9.5% in US$ as compared to the corresponding period of 2016. The segments of Cardiovascular devices, Endovascular devices, Electrophysiology devices, and Neurovascular devices grew vigorously and recorded revenue increase of 24.6%, 22.1%, 38.0% and 40.7% respectively excluding the foreign exchange impact. Orthopedics devices segment remained stable and recorded 2.9% growth in revenue (excluding the foreign exchange impact). The Group successfully recorded a profit of US$20.6 million (profit attributable to equity shareholders: US$21.4 million) for the six months ended 30 June 2017, with an increase of 272.4% as compared with the corresponding period of 2016. The significant increase is principally attributable to a significant growth in revenue from the cardiovascular and endovascular segments in the PRC market, and in particular, a significant revenue growth of our third generation drug eluting stent Firehawk™ Coronary Rapamycin Target Eluting Stent, and a substantial reduction of net loss of the Orthopedics business due to the improvement in its revenue and gross margin.

I. UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2017 (unaudited)
(Expressed in United States dollars)

		Six months ended 30 June	
	Note	**2017**	2016
		US$'000	*US$'000*
Revenue	*3*	**217,339**	198,556
Cost of sales		**(58,995)**	(61,595)
Gross profit		**158,344**	136,961
Other revenue	*4*	**1,920**	2,939
Other net (loss)/gain	*4*	**(4,442)**	2,145
Research and development costs		**(25,708)**	(24,161)
Distribution costs		**(63,707)**	(62,038)
Administrative expenses		**(31,264)**	(31,681)
Other operating costs		**(1,098)**	(1,728)
Profit from operations		**34,045**	22,437
Finance costs	*5(a)*	**(7,004)**	(8,264)
Gain on disposal of subsidiaries	*13(b)*	**6,531**	–
Share of losses of associates		**(3,279)**	–
Share of losses of a joint venture		**(2,532)**	(1,768)
Profit before taxation	*5*	**27,761**	12,405
Income tax	*6*	**(7,147)**	(6,870)
Profit for the period		**20,614**	5,535
Attributable to:			
Equity shareholders of the Company		**21,372**	4,689
Non-controlling interests		**(758)**	846
Profit for the period		**20,614**	5,535
Earnings per share	*7*		
– Basic (in cents)		**1.50**	0.33
– Diluted (in cents)		**1.46**	0.33

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 (unaudited)
(Expressed in United States dollars)

	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Profit for the period	**20,614**	5,535
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**14,459**	(5,488)
Other comprehensive income for the period	**14,459**	(5,488)
Total comprehensive income for the period	**35,073**	47
Attributable to:		
Equity shareholders of the Company	**35,499**	(670)
Non-controlling interests	**(426)**	717
Total comprehensive income for the period	**35,073**	47

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 (unaudited)

(Expressed in United States dollars)

	Note	At 30 June 2017		At 31 December 2016	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current assets					
Investment properties			**5,774**		5,720
Other property, plant and equipment			**254,538**		248,885
Land use rights			**15,831**		15,638
			276,143		270,243
Intangible assets			**74,044**		68,152
Prepayments for non-current assets			**2,098**		2,010
Goodwill			**54,458**		54,458
Interest in associates			**21,494**		11,432
Interest in a joint venture			**–**		676
Available-for-sale securities			**2,000**		2,000
Deferred tax assets			**5,272**		4,739
Other non-current assets			**3,761**		3,364
			439,270		417,074
Current assets					
Inventories		**110,606**		100,863	
Trade and other receivables	*8*	**142,970**		128,752	
Pledged deposits and time deposits		**803**		668	
Cash and cash equivalents		**103,325**		123,694	
Derivative financial assets		**3,237**		3,499	
		360,941		357,476	
Current liabilities					
Trade and other payables	*9*	**102,852**		96,858	
Interest-bearing borrowings	*10*	**53,776**		108,456	
Income tax payable		**6,661**		4,621	
Derivative financial liabilities		**–**		23	
Obligations under finance leases		**48**		81	
		163,337		210,039	
Net current assets			**197,604**		147,437
Total assets less current liabilities			**636,874**		564,511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 (unaudited)
(Expressed in United States dollars)

	Note	At 30 June 2017		At 31 December 2016	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current liabilities					
Interest-bearing borrowings	*10*	**42,666**		40,085	
Deferred income		**25,515**		24,231	
Convertible bonds	*11*	**150,683**		147,769	
Other payables		**3,708**		2,664	
Deferred tax liabilities		**3,507**		3,283	
			226,079		218,032
Net assets			**410,795**		346,479
Capital and reserves	*12*				
Share capital			**14**		14
Reserves			**394,607**		332,895
Total equity attributable to equity shareholders of the Company			**394,621**		332,909
Non-controlling interests			**16,174**		13,570
Total equity			**410,795**		346,479

II. NOTES

(Expressed in United States dollars unless otherwise indicated)

1. Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of MicroPort Scientific Corporation (the "Company") and its subsidiaries (together, the "Group") since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the audit committee of the Company and approved for issue by the Board of Directors on 24 August 2017. The interim financial report has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2017.

2. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

3. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of business 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 identified seven reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

	Six months ended 30 June 2017							
	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	108,771	83,315	12,181	3,526	5,747	2,862	715	217,117
– Rental income	–	159	–	–	63	–	–	222
	108,771	83,474	12,181	3,526	5,810	2,862	715	217,339
Reportable segment net (loss)/profit	(9,367)	36,475	3,227	(1,342)	822	(1,307)	(756)	27,752

	At 30 June 2017							
	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*
Reportable segment assets	392,560	354,380	45,874	17,582	17,740	19,805	11,281	859,222
Reportable segment liabilities	141,078	104,592	3,997	8,680	2,858	15,887	–	277,092

	Six months ended 30 June 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	107,171	70,114	10,450	2,679	4,336	2,921	885	198,556
Reportable segment net (loss)/profit	(15,613)	29,804	4,810	(1,188)	1,571	(2,282)	(674)	16,428

	At 31 December 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*
Reportable segment assets	379,682	321,181	46,378	18,185	15,399	20,831	3,688	805,344
Reportable segment liabilities	128,272	116,300	4,037	8,208	1,756	16,284	6,645	281,502

The measure used for reporting segment profit/(loss) is "reportable segment net profit/(loss)", which represents the profit/(loss) for the year/period attributable to each of the reportable segments. 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 People's Republic of China (the "PRC") dividends withholding tax are excluded from reportable segment net profit/(loss).

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Reportable segment net profit	**27,752**	16,428
Equity-settled share-based payment expenses	**(4,599)**	(3,760)
Unallocated exchange (loss)/gain	**(2,295)**	2,164
Gain on disposal of subsidiaries	**6,531**	–
Unallocated expenses, net	**(6,775)**	(9,297)
Consolidated profit for the period	**20,614**	5,535

4. Other revenue and net (loss)/gain

	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Other revenue		
Government grants	**1,016**	2,660
Interest income on bank deposits	**367**	279
Interest income on the convertible bonds	**537**	–
	1,920	2,939
Other net (loss)/gain		
Net foreign exchange (loss)/gain	**(4,779)**	919
Changes in fair value of embedded financial derivatives	**(239)**	347
Others	**576**	879
	(4,442)	2,145

5. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
(a) Finance costs		
Interest on the Otsuka Loans	**30**	1,324
Interest on the convertible bonds *(note 11)*	**4,830**	4,321
Interest on other borrowings	**1,737**	2,106
Others	**407**	513
	7,004	8,264

(b) Other items

	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Amortisation of intangible assets	**2,926**	2,694
Depreciation	**14,440**	15,584
Research and development costs *(note)*	**25,708**	24,161
Provision of inventories write-down	**188**	1,876
Impairment loss of goodwill	**–**	999
Impairment loss of intangible assets	**150**	–

Note: Research and development costs includes amortisation of intangible assets of US$1,388,000 (six months ended 30 June 2016: US$1,068,000) and depreciation of property, plant and equipment of US$1,586,000 (six months ended 30 June 2016: US$1,559,000), which are included in the total amortisation and depreciation charges as disclosed above.

6. Income tax

	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Current tax – the PRC corporate income tax ("CIT")	**6,756**	5,656
Current tax – other jurisdictions	**744**	739
	7,500	6,395
Deferred taxation	**(353)**	475
	7,147	6,870

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%.

In the United States (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 30 June 2017, based on management's assessment of 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.

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$21,372,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: US$4,689,000) and the weighted average of 1,428,078,000 ordinary shares in issue during the six months ended 30 June 2017 (six months ended 30 June 2016: 1,421,873,000 ordinary shares).

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2017	2016
	Number of shares	Number of shares
	'000	*'000*
Issued ordinary shares at 1 January	**1,439,481**	1,426,569
Effect of share options exercised	**1,096**	4,070
Effect of shares under share award scheme	**(12,499)**	(8,766)
Weighted average number of ordinary shares at 30 June	**1,428,078**	1,421,873

(b) ***Diluted earnings per share***

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US$21,372,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: US$4,689,000) and the weighted average shares of 1,462,258,000 shares for the six months ended 30 June 2017 (six months ended 30 June 2016: 1,429,575,000 ordinary shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme.

The calculation of diluted earnings per share amount for the six months ended 30 June 2017 has not included the potential effect of the deemed conversion of the convertible bonds (note 11) into ordinary shares during the period, as they have an anti-dilutive effect on the basic earnings per share amount for the period.

8. Trade and other receivables

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

	At 30 June 2017	At 31 December 2016
	US$'000	*US$'000*
Within 1 month	**26,434**	30,088
1 to 3 months	**54,893**	41,319
3 to 12 months	**23,328**	19,142
More than 12 months	**10,551**	9,634
	115,206	100,183
Other debtors	**12,421**	10,109
Amounts due from a joint venture	**738**	–
Income tax recoverable	**125**	2,958
Amounts due from related parties	**–**	2,000
Amounts due from New Alliance FF Limited	**–**	2,000
Loans and receivables	**128,490**	117,250
Deposit and prepayments	**14,480**	11,502
	142,970	128,752

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

9. Trade and other payables

As of the end of the reporting period, the aging analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2017	At 31 December 2016
	US$'000	*US$'000*
Within 1 month	**15,262**	19,093
1 to 3 months	**7,307**	1,231
Over 3 months but within 6 months	**781**	210
Over 6 months but within 1 year	**437**	152
Over 1 year	**18,720**	20,226
Trade payables	**42,507**	40,912
Advances received	**529**	549
Dividends payables to ordinary shareholders	**3,599**	89
Other payables and accrued charges	**56,217**	55,308
	102,852	96,858

All trade and other payables are expected to be settled within one year.

10. Interest-bearing borrowings

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

	At 30 June 2017	At 31 December 2016
	US$'000	*US$'000*
Within 1 year or on demand	**53,776**	108,456
After 1 year but within 2 years	**20,811**	21,468
After 2 years but within 5 years	**21,855**	18,617
	42,666	40,085
	96,442	148,541

As of the end of the reporting period, the interest-bearing borrowings comprise:

	Note	**At 30 June 2017**	At 31 December 2016
		US$'000	*US$'000*
Bank loans			
– secured	*(a)*	**46,267**	43,605
– unsecured		**50,000**	64,415
		96,267	108,020
Secured Otsuka Loans	*(b)*	**–**	40,355
Secured loan from Shanghai Municipal Financial Administration		**175**	166
		96,442	148,541

(a) Bank loans

At 30 June 2017, the bank facilities of the Group were secured by land use rights and buildings hold for own use with net book value of US$8,514,000 and US$103,258,000 respectively (31 December 2016: US$$4,094,000 and US$72,743,000, respectively).

(b) Otsuka Loans

The Company entered into a credit agreement (the "Credit Agreement") dated 15 December 2013 with Otsuka Medical Devices Co., Ltd. ("Otsuka Medical Devices"), a subsidiary of Otsuka Holdings Co., Ltd., being the Company's major shareholder. Pursuant to the Credit Agreement, 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.

In January 2017, the Company fully repaid the Team B Loan in the principal amount of US$40,000,000 and related interests to Otsuka Medical Devices when it was due for repayment.

11. 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.

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 2017	**147,769**	**28,059**	**175,828**
Interest charged during the period *(note 5(a))*	**4,830**	**–**	**4,830**
Interest paid during the period	**(1,916)**	**–**	**(1,916)**
As at 30 June 2017	**150,683**	**28,059**	**178,742**

No conversion of the convertible bonds had been occurred up to 30 June 2017.

12. Capital, reserves and dividends

(a) Dividends

At the Board meeting held on 29 March 2017, the board of directors recommended the payment of a final dividend of HK1.9 cents per ordinary share of the Company for the year ended 31 December 2016 (the "2016 Final Dividend") by way of cash, with an option to elect to receive new fully paid shares of the Company in lieu of cash. The 2016 Final Dividend was approved at the annual general meeting of the Company held on 20 June 2017 and is payable to shareholders of the Company whose names appeared on the register of members of the Company on 28 June 2017. Accordingly, a liability of US$3,510,000 has been recognised as at 30 June 2017.

Further details of the final dividend were set out in the Company's circulars dated 18 May 2017 and 14 July 2017.

No interim dividend attributable to the interim period has been declared by the Company.

(b) Share Option Plans

Apart from the share options in issue carried forward from 2016, 26,617,000 share options were granted to senior management and employees of the Group under the Company's employee share option scheme (six months ended 30 June 2016: 41,670,000) during the six months ended 30 June 2017. The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of option is US$1.00. Each option entitles the holder to subscribe for one ordinary share in the Company. These share options will vest in instalment during the period from 23 January 2018 to 30 March 2022. The exercise price ranges from HK$5.628 to HK$5.798, which represents the highest of (i) the closing price of share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a share.

During the six months ended 30 June 2017, 3,110,190 share options were exercised (six months ended 30 June 2016: 6,582,410) with a weighted average exercise price of HK$2.80 (equivalent to approximately US$0.36) (six months ended 30 June 2016: HK$2.56 (equivalent to approximately US$0.33)) and the total number of ordinary shares increased by 3,110,190 for the six months ended 30 June 2017 (six months ended 30 June 2016: 6,582,410 ordinary shares).

(c) Share award scheme

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. For the six months ended 30 June 2017, the Company granted 6,682,414 shares (six months ended 30 June 2016: 6,120,523) to the Group's executives and purchased 5,432,000 shares (six months ended 30 June 2016: 5,520,000) at cash consideration of US$3,880,000 (six months ended 30 June 2016: US$2,533,000).

(d) Employee share purchase plan ("ESPP")

Since 2014, the Group adopted several ESPPs, pursuant to which, the Group agreed to transfer partial equity interests in its subsidiaries to the partnership firms, whose limited partners consisted of employees of the Group. All participants of the ESPPs should purchase equity interest in respective partnership firms at amounts (the "Subscription Amounts") specified in the partnership agreements with a vesting period. Employees participating in the plan have to transfer out their equity interests if their employments with the Group or the Group's associates or joint ventures were terminated within the vesting period from the equity interests purchase dates, to a person or a party nominated by the general partners of the partnership firms at a price no higher than the Subscription Amounts.

During the six months ended 30 June 2017, the Group transferred partial equity interests in Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai") to a partnership firm (the "Lifesciences ESPP") (note 13(b)). No expense was recognised for the six months ended 30 June 2017 in relation to the Lifesciences ESPP as the transfer consideration approximates to the fair value of the equity interests transferred.

13 Disposals

(a) MicroPort Endovascular (Shanghai) Co., Ltd. ("MP Endo")

On 3 December 2016, the Group entered into several equity transfer agreements (the "Previous Equity Transfer Agreements") and a capital increase agreement (the "Capital Increase Agreement") with Shanghai Lianmu Enterprise Management Centre (Limited Partnership) ("Lianmu"), Shanghai Jiushen Private Equity Limited (Limited Partnership) ("Jiushen") and Zhangjiang Science & Technology Venture Capital Co., Ltd. ("ZJ Sci-Tech Venture"), pursuant to which, the Group agreed to transfer an aggregate of 12% equity interests in MP Endo to Lianmu and ZJ Sci-Tech Venture at a cash consideration of RMB217,800,000 (equivalent to US$31,746,000) and Jiushen agreed to subscribe for approximately 1.92% of the enlarged share capital of MP Endo at a consideration of RMB35,550,000 (equivalent to US$5,120,000). As at 31 December 2016, only Capital Increase Agreement was completed.

During the six months ended 30 June 2017, the Previous Equity Transfer Agreements were completed. As the disposal of partial equity interests of MP Endo to Lianmu and ZJ Sci-Tech Venture didn't result in a loss of control by the Group, such disposal was treated as a transaction within the shareholders of MP Endo in their capacity as equity holders. Accordingly, the amount of US$25,842,000 being the difference between the consideration of RMB217,800,000 (equivalent to US$31,746,000) and the carrying amount of net assets in proportion of the disposed equity interests in MP Endo as at the date of disposal, net of relevant taxes and expenses was credited to capital reserve of the Group.

On 10 March 2017, the Group entered into an equity transfer agreement (the "CICC Equity Transfer Agreement") with CICC Jiatai Equity Investment Fund Partnership II (Tianjin) (Limited Partnership) ("CICC"), pursuant to which, the Group agreed to transfer 2.7830% equity interests in MP Endo at a cash consideration of RMB51,500,000 to CICC.

On 10 March 2017, the Group entered into another equity transfer agreement (the "Huajie Equity Transfer Agreement") with Huajie (Tianjin) Medical Investment Partnership (Limited Partnership) ("Huajie"), pursuant to which, the Group agreed to transfer 7.0249% equity interests in MP Endo at a cash consideration of RMB130,000,000 to Huajie.

On 26 May 2017, the Huajie Equity Transfer Agreement was terminated with mutual consent. On the same day, the Group entered into a new equity transfer agreement (the "Fufu Equity Transfer Agreement") with Shanghai Fufu Enterprise Management Consulting Center (Limited Partnership) ("Fufu"), pursuant to which, the Group agreed to transfer 7.0249% equity interests in MP Endo at a cash consideration of RMB130,000,000 to Fufu. Huajie and Fufu have the same ultimate controller.

Lianmu, Jiushen, CICC, Huajie and Fufu are all third parties. ZJ Sci-Tech Venture is a wholly-owned subsidiary of Zhangjiang Group which is a substantial shareholder of the Company.

As at 30 June 2017, the CICC Equity Transfer Agreement and the Fufu Equity Transfer Agreement have yet to be completed and the Group held approximately 71.60% equity interests in MP Endo. Upon the completion of the CICC Equity Transfer Agreement and the Fufu Equity Transfer Agreement, the Group's effective equity interests in MP Endo will be approximately 61.79% and MP Endo will remain as a subsidiary of the Company.

The abovementioned agreements all contain compensation mechanism. If the actual net profit of MP Endo for the year ending 31 December 2017 in accordance with Chinese Accounting Standards for Business Enterprises (the "2017 ANP") is less than RMB52,250,000, the investors are entitled to require a compensation in the form of equity interests of MP Endo from the Group with the ratio calculated under the abovementioned agreements. Based on management's estimation, the 2017 ANP will meet the condition above, and no liability for the compensation obligation was recognised as at 30 June 2017.

Further details of the abovementioned agreements were set out in the Company's announcements dated 4 December 2016, 10 March 2017 and 26 May 2017.

(b) MP Lifesciences Shanghai

MP Lifesciences Shanghai was a wholly-owned subsidiary of the Group as at 31 December 2016. During the six months ended 30 June 2017, the Group entered into several agreements with a partnership firm (the "Partnership Firm"), whose partners consisted of employees of the Group and a third party investor (the "Investor"), and the Investor with contemplation to dispose an aggregate 60% equity interests in MP Lifesciences Shanghai by way of (i) transfer of partial equity interests in MP Lifesciences Shanghai held by the Group to the Partnership Firm and the Investor (the "Transfer"); and (ii) capital increase in MP Lifesciences Shanghai totalling RMB41,110,000 by the Partnership Firm and the Investor (the "Capital Increase"). The Transfer and the Capital Increase are determined to be linked.

In June 2017, the Transfer was completed which resulted to a reduction in the Group's equity interests in MP Lifesciences Shanghai to approximately 68.4%. Pursuant to the article of association of MP Lifesciences Shanghai, the board is the highest authority and consists of three directors, of which one is appointed by the Group and the other two are appointed by the Partnership Firm and the Investor. All matters to be decided by the board of MP Lifesciences Shanghai shall be approved by more than half of votes. On 20 June 2017, a board resolution was passed by all directors of MP Lifesciences Shanghai to approve the Capital Increase and the amendments on the article of association of MP Lifesciences Shanghai in relation to the Capital Increase. Notwithstanding that the Capital Increase and the change in shareholding of MP Lifesciences Shanghai were approved by local regulatory authorities in August 2017, management determined that the Group lost control over MP Lifesciences Shanghai on 20 June 2017.

As the Transfer and the Capital Increase are determined to be linked, the transactions were accounted for as a disposal of MP Lifesciences Shanghai with a gain on disposal of US$6,531,000 recognised in profit or loss for the six months ended 30 June 2017 and the Group's remaining interests in MP Lifesciences Shanghai recognised as interest in associates as at 30 June 2017. The gain on disposal was determined by the difference between (a) the sum of (i) cash consideration; (ii) the fair value of the remaining interests in MP Lifesciences Shanghai and (iii) the carrying amount of the non-controlling interests; and (b) the carrying amount of MP Lifesciences Shanghai's net assets.

III. MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Overview

Overview

To continue the policy thrust of advancing the healthy and rapid development of domestic medical device industry and enhancing the social medical security standard, the policies for the new medical reform and its supporting measures have constantly been refined and promoted in the first half of 2017. Plans such as "Plan for Deepening Pharmaceuticals and Health System Reform"(「深化醫藥衛生體制改革規劃」) and "Plan for Sanitary and Health Technology Innovation Project"(「衛生與健康科技創新事項規劃」) clearly require the enhancement of the innovation ability of medical device industry, achievement of reaching or approaching of medical device quality to international advanced levels, and the establishing of Chinese standards and brands of Relevant Policies. At the same time, "Measures for the Administration of Medical Device Registration"(「醫療器械管理辦法」) requires medical device clinical institutions to follow the filing system in lieu of the original permission system so as to enhance the efficiency of approval process and further speed up the clinical approval process; "Notice of Relevant Policies in relation to the Clearing Up and Standardizing a batch of Administrative Fees"(「關於清理規範一批行政事業性收費有關政策的通知」) abolishes fees on the registration and examination of medical devices, which relieves the cost burden for the medical device enterprises. With

the support of the government and improvement in structural demand of the medical resources in China, the China-made medical device industry undergoes steady development. Regarding the international market, the European Union has issued a new medical devices act which comprehensively enhances the regulatory requirements towards medical devices in European Union. This imposes higher demand on the performance of domestic medical devices which enter the international market, and provides new opportunities for those internationalized medical device companies with outstanding creativity, excellent quality of products and standardized operation.

During the Reporting Period, the Company thoroughly read and understood the policies and ensured the implementation of such policies within the Company. Grasping the transformation and integration period of the industry, the Company continued to expand its sales channel, advancing in-house research and development ("R&D") projects, meticulously assessed and optimized its operation and achieved fast and healthy revenue growth of various segments. As of 30 June 2017, the Company recorded operating revenue of US$217.3 million, representing a growth of 9.5% as compared to the corresponding period of 2016; and net profit of US$20.6 million (profit attributable to equity shareholders: US$21.4 million), representing a growth of 272.4% as compared to the corresponding period of 2016.

Segment Review

– *Orthopedics Business on a Steady Upward Trend*

During the first half of 2017, our Orthopedics business continued to build corporate brand of "Full Function, Faster™" and continued to execute well strategy on market promotion and sales portfolio improvement on the basis of strict control over operating expenses. For the six months ended 30 June 2017, our Orthopedics business recorded a revenue of US$108.8 million, representing a growth rate of 2.9% (excluding the foreign exchange impact) as compared to the corresponding period of 2016, being the highest growth rate since acquisition of the Orthopedics business in 2014. Globally, the growth rate in revenue in most regions were beyond the market average. Especially, both North America and Japan business realized growth rates of over 5% (excluding the foreign exchange impact) as compared to the corresponding period of 2016, and Japan business reversed the negative sales trend that lasted over the past four years.

For our overseas Orthopedics business, with the profit-oriented marketing strategy, we adjusted our products portfolio and sales region mix, and enhanced our promotion in regions with high gross profit margin such as the United States, Japan and Australia, which resulted in a significant revenue growth from our Orthopedics business. Meanwhile, the unit product cost was effectively reduced through such a series of measures as controlling production input, replacing out-sourcing with internal production, and optimization of production processes on about 40 selected "Production Continuing Improvement Projects." Benefited from the effects of above measures, the gross profit margin of overseas Orthopedics business increased significantly from 59% for the six months ended 30 June 2016 to 65% for the six months ended 30 June 2017. From the standpoint of product layout, we are launching more new products in the United States market, such as Evolution™ Revision Tibia, and the Procotyl Prime Acetabular Cup System. The launching of new products is going to be the catalyst for sustainable growth of our business. The overseas Orthopedics business is expected to maintain a steady upward trend in the second half of 2017.

During the Reporting Period, our Orthopedic business in China accelerated promoting the awareness of the "Full Function, Faster™" concept in the Chinese market, and continued optimizing products mix to explore more applications of our unique minimally invasive technology, which lead to the continuous promotion of gross profit margin. Our joint products newly entered 32 incremental hospitals in the Reporting Period and its sales totally covered over 500 hospitals nationwide. Our spine and trauma business focused on enhancing sales channels as well as adjusting and optimizing product mix, leading to a positive rate in revenue and is expected to achieve faster growth in the second half of the year. Our Global Supply Center ("GSC"), responsible for procurement, supply and logistics of surgical instruments and consumable materials for our Orthopedics business, continued to contribute to the Orthopedic business in respect of cost reduction and operational expense optimization. As for our R&D progress, the project "Research on a hip and knee compatible, safe and highly efficient joint replacement surgical robot system" was launched, which was listed in the 2017 National Key R&D Plan, and was funded by the National "13th Five-Year Plan" key special program of Ministry of Science and Technology of the PRC.

– *Continued Strong Growth of Cardiovascular Devices Business*

During the first half of 2017, our Cardiovascular business continued to maintain strong growth momentum, and realized a growth of 24.6% (excluding the foreign exchange impact) as compared to the same period of 2016, which further consolidated our leading position in the cardiovascular device market in China. The drug eluting stent ("DES") business made an outstanding contribution: Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™") recorded an increase of 3.9% (excluding the foreign exchange impact) in the domestic market sales as compared to the corresponding period of 2016, while our Firehawk™ Coronary Rapamycin Target Eluting Stent ("Firehawk™") kept the strong growth momentum and continued to deliver impressive result of 130.4% growth rate (excluding the foreign exchange impact) in the domestic market sales as compared to the corresponding period of 2016. As of 30 June 2017, our DES products covered over 1,300 hospitals in 30 provinces of China, our Firehawk™ covered 427 hospitals in 27 provinces.

Our overseas DES business also achieved encouraging result, with a sales revenue growth of 55.0% (excluding the foreign exchange impact) as compared to the same period of 2016. Firehawk™ had been registered in 30 countries including Thailand, Indonesia and India, realized a sales growth rate of 128.8% (excluding the foreign exchange impact) as compared to the corresponding period of 2016. As for our clinical research progress, the three-month optical coherence tomography results of our Firehawk™ Target AC European clinical trial further confirmed the safety and efficacy of Firehawk™. Meanwhile, we initiated Target MR Clinical Trial for Firehawk™ in Malaysia, and also completed the first implantation of Firehawk™ in India and Mexico respectively, aiming at raising the profile of Firehawk™ globally. The 12-month follow-up results of first-in-man clinical trial Future-I for our independently developed second generation DES Firesorb™ Bioresorbable Rapamycin Target Eluting Coronary Scaffold System ("Firesorb™") confirmed its safety and efficacy. In March 2017, the pivotal randomized controlled clinical trials of Firesorb™ Future II was initiated, with patient enrollment scheduled in August.

– *Sustaining Steady Growth of Endovascular Business*

In the Reporting Period, the Company's Endovascular business maintained good growth and achieved sales growth of 22.1% (excluding the foreign exchange impact) as compared to the corresponding period of 2016. The growth was mainly driven by the sustained rapid growth momentum of domestic aortic endovascular treatment market, in particular, rapid increase in cases of abdominal aortic aneurysm adopting interventional treatment which led to significant sales growth of abdominal aortic stent; the excellent performance of our products enabled the business to maintain strong competitiveness among endovascular abdominal aortic aneurysm treatment related products in China; and our continued efforts in building an outstanding sales team, expanding sales channels and developing blank markets.

Great breakthroughs were achieved in R&D projects of this business. As of 30 June 2017, our Castor™ Thoracic Endovascular Stent Graft System was approved for registration by the China Food and Drug Administration (the "CFDA"), becoming the first abdominal branch stent graft system for thoracic aortic dissection treatment to obtain official approval for market launch in the world and will be first in the world to treat the complex disease of aortic arch. The Reewarm™ PTX Peripheral Balloon Dilation Catheter also obtained approval for registration by the CFDA. The Minos™ Ultra-Low-Profile abdominal aortic stent-graft system entered the "Green Path" special approval procedures of CFDA and expected to be approved for market launch in 2018.

In addition, according to the project cooperation agreement entered into between the Company and Lombard Medical, Inc. ("Lombard"), the Company began the spare parts processing business for Lombard's two abdominal aortic stent products, Alutra and Aorfix, which will significantly reduce production cost of products after launching of production. Meanwhile, we are accelerating the preparation of the application submission for CFDA Green Path of Altura and the application submission of Aorfix's CFDA approval.

With the development and introduction of new products of our Endovascular business, we are confident to be the global leader in the field of aortic disease treatment with the richest product pipeline and most advanced technology.

– *Significant Milestones also Achieved in Other Businesses*

In the first half of 2017, our other business segments also recorded significant growth. Neurovascular business recorded a sales growth of 40.7% (excluding the foreign exchange impact) as compared to the corresponding period of 2016. Among which, our APOLLO™ Intracranial Artery Stent System (APOLLO™) with 12 years history of safe application recorded a sales growth of 27.5% (excluding the foreign exchange impact) as compared to the corresponding period of 2016. The WILLIS™ Intracranial Stent Graft System for treatment of intracranial aneurysm achieved a growth of 34.4% (excluding the foreign exchange impact) as compared to the corresponding period of 2016. R&D projects for Neurovascular business were also progressing smoothly. In January 2017, APOLLO™ in large size obtained CFDA approval, which further strengthened our leadership position in domestic neuro-intervention market. Our Tubridge™ flow diverter revascularization device, which is indicated for the treatment of intracranial large and giant aneurysms, entered CFDA

Green Path. We will also launch in succession vertebral artery stent, coil embolization device, and clot retrieval device to provide a full range of solutions for the neuro-interventional treatment.

As the only domestic provider with a comprehensive 3D solution for the diagnosis and treatment of complex arrhythmias, our electrophysiology ("EP") business delivered a strong performance by realizing a substantial sales revenue growth of 38.0% (excluding the foreign exchange impact) as compared to the corresponding period of 2016, attributed to our endeavor in expanding the market as well as building and optimizing our sales channel globally. Our EP products were used in 232 EP clinical centers in China, and maintain steady sales in multiple countries and regions, including Greece, Turkey, Pakistan and Dominic Republic. In the first half of 2017, we explored into South Korea market and received our first order in South Korea. Our EP business also achieved great progress in obtaining clinical certificates: FireMagic™ 3D Ablation Catheter, OptimAblate™ Irrigation Pump, and PathBuilder™ Transseptal Guiding Introducer Kit and accessory obtained CFDA approvals; meanwhile Flashpoint™ Renal Artery RF Ablation Catheter accessed to CFDA Green Path. Globally, FireMagic™ Cardiac RF Ablation Catheter and EasyFinder™ Fixed Curve Diagnostic Catheter received the regulatory approval from the Ministry of Food and Drugs Safety ("MFDS") South Korea, and four products including FireMagic™ Cold Brine Irrigated Ablation Catheter received registration approvals from Thailand Food and Drug Administration ("Thailand FDA"). On 15 August 2017, Shanghai MicroPort EP MedTech Co., Ltd., the Company's subsidiary engaged in EP business, was quoted on the National Equities Exchange Quotations, which would bring more opportunities for development of EP business.

Our joint venture with Sorin Group also achieved satisfactory improvement. In the first half of 2017, the implantation volume and sales revenue of pacemaker continue to increase with growth rate of 148% and 20% (excluding the foreign exchange impact) respectively as compared to the same period of 2016. Meanwhile, our domestic pacemaker is at the stage of review for CFDA registration approval; our independently developed BonaFire pacing leads completed clinical follow up. Our independently developed Pacing System Analyzer ("PSA") also initiated its pre-market clinical trial in China, which is expected to fill the gap of domestic PSA market, break the monopoly of imported products in the market, and provide patients with more and better solutions upon obtaining CFDA registration approval.

– *Progress in Major Research and Development Projects*

As an innovative medical device company, unceasingly carrying out and advancing R&D projects is the core driver for our growth. In the first half of 2017, we had 6 products receiving CFDA registration certificates, 1 product receiving CE registration certificate and 2 products accessed to CFDA Green Path, and a number of projects also attained milestone achievements.

In the first half of 2017, the R&D of our surgical robot progressed smoothly and achieved breakthroughs in key product directions. Leveraging on the overall surgical robot techniques we have accumulated and intergrated with the planning of our orthopedics and joint business, the Company started the development of joint replacement robot and obtained "13th Five-Year Plan" key special program subsidies from the Ministry of Science and Technology of the PRC.

Our Viraflow™ Transcatheter Aortic Valve and Delivery System has completed the six-month follow-up for pre-marketing clinical trial. The result showed great performance and confirmed its safety and efficacy. It will enter the one-year follow-up period and is expected to gain CFDA approval in 2018.

2. Financial Review

Overview

Faced with technical changes in the global medical device industry, in particular the challenges in the rapidly growing medical device industry from a highly competitive global market, we have successfully achieved a revenue growth of 9.5% for the six months ended 30 June 2017 and maintained our leading position in China. We firmly continued to provide diversified products and continued our globalization strategy which generated 50.9% of our revenue from overseas markets. We aim to continuously bring our innovations, technologies and services to millions of global patients and become a patient oriented global enterprise in minimally invasive and other emerging medical market.

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$'000	**Six months ended**		**Percent change**	**excluding the foreign exchange**
	30 June 2017	30 June 2016	**in US$**	**impact**
Orthopedics devices business	**108,771**	107,171	1.5%	2.9%
– US	**46,824**	44,251	5.8%	5.8%
– EMEA	**29,570**	31,350	(5.7%)	(2.9%)
– Japan	**15,904**	15,234	4.4%	5.1%
– PRC	**5,134**	5,623	(8.7%)	(4.1%)
– Others	**11,339**	10,713	5.8%	8.0%
Cardiovascular devices business	**83,474**	70,114	19.1%	24.6%
Endovascular devices business	**12,181**	10,450	16.6%	22.1%
Electrophysiology devices business	**3,526**	2,679	31.6%	38.0%
Neurovascular devices business	**5,810**	4,336	34.0%	40.7%
Surgical devices business	**2,862**	2,921	(2.0%)	2.7%
Diabetes devices business *(* Note)*	**715**	885	(19.2%)	(14.9%)
Total	**217,339**	198,556	9.5%	12.5%

** Note:*

During the six months ended 30 June 2017 this segment was restructured whereby the Group ceased to hold the controlling interest of Shanghai MicroPort Lifesciences Co., Ltd. (the "MP Lifesciences Shanghai") who became an associate entity of the Group. As a result the revenue of this segment disclosed herein for the six months ended 30 June 2017 only accrued for the period from 1 January 2017 to the date of loss of control, as compared to six months for the prior year.

Our revenue for the six months ended 30 June 2017 was US$217.3 million, increasing by 9.5% as compared to US$198.6 million for the six months ended 30 June 2016. Our reported revenue was adversely impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries to US$, the presentation currency of the Group due to the strengthening of US$ against RMB during the Reporting Period as compared to the corresponding period of last year. Our revenue growth rate was 12.5% (excluding the foreign exchange impact). Such 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 orthopedic devices segment achieved a revenue of US$108.8 million for the six months ended 30 June 2017, representing a growth of 2.9% (excluding the foreign exchange impact) and 1.5% in US$ as compared to the six months ended 30 June 2016. Such operational increase was primarily due to the following factors: (i) revenue in the United States market achieved 5.8% growth (excluding the foreign exchange impact) by our focus on opening new sales channels, surgeon training effectiveness, and new product launches which maintained the stable growth trend in US market; (ii) operation revenue in Japan increased by 5.1% (excluding the foreign exchange impact); by seeing positive momentum from the Japanese market with solid growth in both knees and hips driven by a focus on sales execution and customer development, Japan's knees sales are performing at a record level; (iii) the operation revenue in EMEA market decreased by 2.9% (excluding the foreign exchange impact) over prior year, mainly effected by timing of orders from stocking distributors in such six months and the strategy to shift away from lower margin sales channels for optimized utilization of limited corporate resources; (iv) revenue in the PRC market declined by 4.1% (excluding the foreign exchange impact) which was due to internal organizational restructuring; (v) sales in other markets achieved significant growth of 8.0% (excluding the foreign exchange impact) driven by steady growth in Australia, Canada and Brazil market which drove overall improvement in other international regions.

– *Cardiovascular Devices Segment*

  Our cardiovascular devices segment achieved a revenue of US$83.5 million for the six months ended 30 June 2017, representing a growth of 24.6% (excluding the foreign exchange impact) or a growth of 19.1% in US$ as compared to the six months ended 30 June 2016. Such revenue increase was mainly attributable to (i) Firehawk™ penetrating into an increasing number of hospitals in China and more overseas countries, with its global revenue achieving a growth of 130.1% (excluding the foreign exchange impact) compared with the six months ended 30 June 2016; (ii) the revenue of Firebird2™ in the PRC market maintaining an organic growth of 3.9% (excluding the foreign exchange impact) through advanced distribution channels.

– *Endovascular Devices Segment*

Our endovascular devices segment achieved revenue of US$12.2 million for the six months ended 30 June 2017, representing a growth of 22.1% (excluding the foreign exchange impact) or a growth of 16.6% in US$ as compared to the six months ended 30 June 2016. Such growth was mainly attributable to the following factors: (i) continued momentum of rapidly expanding endovascular market in China; (ii) positive market recognition for the launch of Hercules™ product which enhanced competitiveness of MicroPort endovascular products in thoracic aortic aneurysm and endovascular treatment market; (iii) in response to government guideline, cultivating markets in second-and-third-tier cities through effective promotion mechanisms.

– *EP Devices Segment*

Our EP devices segment recorded revenue of US$3.5 million for the six months ended 30 June 2017, representing a growth of 38.0% (excluding the foreign exchange impact) or a growth of 31.6% in US$ as compared to the six months ended 30 June 2016. Such increase was mainly attributable to a significant expansion of our distribution network and hospital coverage, as well as rapid revenue growth of new products i.e. Columbus™ 3D EP Navigation System and FireMagic™ irrigated, which were launched in 2016.

– *Neurovascular Devices Segment*

Our neurovascular devices segment recorded revenue of US$5.8 million for the six months ended 30 June 2017, representing a growth of 40.7% (excluding the foreign exchange impact) or a growth of 34.0% in US$ as compared to the six months ended 30 June 2016. Such growth was mainly attributable to (i) the organic growth of 27.5% (excluding the foreign exchange impact) of APOLLO™ Intracranial Stent System driven by its greater market recognition; (ii) WILLISS™ penetrating into an increasing number of hospitals officially listed in Shanghai's Drug Reimbursement List in April 2016, which contributed to the significant growth of 34.4% (excluding the foreign exchange impact).

– *Surgical Devices Segment*

Our segment of surgical devices recorded revenue of US$2.9 million for the six months ended 30 June 2017, representing a growth of 2.7% (excluding the foreign exchange impact) or a decline of 2.0% in US$ as compared to the six months ended 30 June 2016. The increase was primarily attributable to the sales growth of ultrafiltration, occludes and surgical consumable driven by effective sales promotion activities.

– *Diabetes Care and Endocrinal Devices Segment*

Our diabetes care and endocrinal devices segment achieved a revenue of US$0.7 million for the six months ended 30 June 2017, representing a of 14.9% (excluding the foreign exchange impact) or a decrease of 19.2% in US$ as compared to the six months ended 30 June 2016. During the six months ended 30 June 2017 this segment has been restructured whereby the Group ceased to hold the controlling interest of MP Lifesciences Shanghai who subsequently became an associate entity of the Group. As a result the revenue of this segment disclosed herein for the six months ended 30 June 2017 only accrued for the period from 1 January 2017 to the date of loss of control, as compared to six months for the prior year.

Cost of Sales

For the six months ended 30 June 2017, our cost of sales was US$59.0 million, representing a decrease of 4.2% as compared to US$61.6 million for the six months ended 30 June 2016. 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 15.6% from US$137.0 million for the six months ended 30 June 2016 to US$158.3 million for the six months ended 30 June 2017. Gross profit margin is calculated as gross profit divided by revenue. Our gross profit margin increased to 72.9% for the six months ended 30 June 2017 from 69.0% for the six months ended 30 June 2016, primarily driven by (i) the substantial growth in the revenue of product with high gross profit margin, especially the cardiovascular products, which promoted the optimization of sales portfolio; (ii) lower manufacturing cost of orthorecon medical devices, Firehawk™ and Firebird2™.

Other Revenue and Net (Loss)/Income

We had other revenue of US$1.9 million and other net loss of US$4.4 million for the six months ended 30 June 2017, while other revenue and other net income were US$2.9 million and US$2.1 million, respectively, for the six months ended 30 June 2016. The decrease in other revenue was attributed to the decrease in government grant; and the change of other net (loss)/income was primarily due to the foreign exchange net loss for the six months ended 30 June 2017 as compared with a foreign exchange net gain for the six months ended 30 June 2016.

Gain on Disposal of Subsidiaries

We had a gain on disposal of subsidiaries of US$6.5 million for the six months ended 30 June 2017, representing the gain on transferring 60% equity interest in MP Lifesciences Shanghai. The gain on disposal was determined by (a) the sum of (i) cash consideration received; (ii) the fair value of the remaining interests in MP Lifesciences Shanghai and (iii) the carrying amount of the non-controlling interests; and (b) the carrying amount of MP Lifesciences Shanghai's net assets.

Research and Development Costs

R&D costs increased by 6.4% from US$24.2 million for the six months ended 30 June 2016 to US$25.7 million for the six months ended 30 June 2017. Such increase was primarily due to the increased investment in the on-going R&D projects and the newly kicked off R&D projects.

Distribution Costs

Distribution costs increased by 2.7% from US$62.0 million for the six months ended 30 June 2016 to US$63.7 million for the six months ended 30 June 2017. Such increase was mainly attributable to (i) the increase in sales bonus; and (ii) the increase in admission fees and other expenses for broader participation in a variety of industry conferences and events.

Administrative Expenses

Administrative expenses remained stable, which slightly decreased by 1.3% from US$31.7 million for the six months ended 30 June 2016 to US$31.3 million for the six months ended 30 June 2017. The decrease was mainly attributable to the reduced professional services fees.

Other Operating Costs

Other operating costs decreased by 36.5% from US$1.7 million for the six months ended 30 June 2016 to US$1.1 million for the six months ended 30 June 2017. The decrease was mainly attributable to decreased impairment loss of goodwill arising from business acquisition and the decrease of post-acquisition integration related expenses.

Finance Costs

Finance costs decreased by 15.2% from US$8.3 million for the six months ended 30 June 2016 to US$7.0 million for the six months ended 30 June 2017. The decrease was mainly driven by the repayments of the Otsuka Loans and part of bank loans during the six months ended 30 June 2017.

Income Tax

Income tax increased from US$6.9 million for the six months ended 30 June 2016 to US$7.1 million for the six months ended 30 June 2017. This is mainly attributable to the increase in profit before tax of the PRC subsidiaries.

No deferred tax assets were recognized for loss-making subsidiaries as at 30 June 2017.

Liquidity and Financial Resources

As at 30 June 2017, we had US$103.3 million of cash and cash equivalents on hand, as compared to US$123.7 million as of 31 December 2016. 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 as of 30 June 2017 was US$247.1 million, with a decrease of US$49.2 million as compared to US$296.3 million as at 31 December 2016. This was driven by the repayments of the Otsuka Loans and part of the bank loans during the six months ended 30 June 2017. As at 30 June 2017, the gearing ratio (calculated as total loans, bank borrowings and bonds divided by total equity) of the Group dropped to 60% from 86% as at 31 December 2016.

Net Current Assets

Our net current asset as at 30 June 2017 was US$197.6 million as compared to US$147.4 million as at 31 December 2016.

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from sales, purchases, borrowing and lending which give rises to receivables and payables that are denominated in a foreign currency (mainly RMB, Euro and Japanese yen). For the six months ended 30 June 2017, the Group recorded a net exchange loss of US$4.8 million, as compared to an exchange gain of US$0.9 million for the six months ended 30 June 2016. The Group did not have any significant hedging arrangements to manage foreign exchange risk but had been actively monitoring its foreign exchange risk.

Capital Expenditure

For the six months ended 30 June 2017, the Group's total capital expenditure amounted to approximately US$32.7 million, which was used in (i) construction of building; (ii) acquisition of equipment and machinery; and (iii) expenditures for R&D projects in development stage.

Charge on Assets

As at 30 June 2017, the Group had set mortgage on its manufactory building, headquarter building and land use right 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$46.3 million.

Contingent Liabilities

As at 30 June 2017, the Group has issued a guarantee of RMB30.0 million (equivalent to US$4.3 million) in respect of a banking facility granted by a bank to Microport Sorin CRM (Shanghai) Co., Ltd., the Group's joint venture. As at 30 June 2017, the banking facility was fully utilized.

As at the end of the Reporting Period, the Directors did not consider it is probable that a claim would be made against the Group under the above guarantee. No provision was therefore made in this respect as at 30 June 2017.

3. Human Resources and Training

As of 30 June, 2017, the Group had 3,123 employees globally, 755 of which were overseas employees spreading around Asia Pacific, EMEA, Australia as well as United States, accounting for 24% of total employees. In the first half of 2017, we set up the India team through local recruitment, which supported the rapid expansion of our business in India market. The evolution of the global footprint enriches the Group's staff diversity which fuels the future growth.

Talent development sparks as another highlight for the Group. All of our senior executives are committed to sharing their expertises and experience through training and lecturing sessions. Our "Leaders' Teach" philosophy not only plays a significant role in knowledge transfer, but also strengthens the bonding among employees. Strong people-oriented development strategy enables the talent retention strategy onwards.

IV. SUPPLEMENTAL INFORMATION

Purchase, Sale or Redemption of Listed Securities of the Company

Pursuant to the share award scheme approved by the Board on 26 August 2011 ("Share Award Scheme"), the Company purchased, through the trustee of the Share Award Scheme ("Trustee"), a total of 5,432,000 shares of the Company at cash consideration of US$3,880,000 on the Stock Exchange for the six months ended 30 June 2017.

Save as disclosed above, during the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the period of six months ended 30 June 2017.

Compliance with the Code on Corporate Governance Practices

Throughout the period of the six months ended 30 June 2017, except for the provisions as addressed below, the Company had complied with all the applicable code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separated 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. Zhaohua Chang ("Dr. Chang") has assumed the responsibility of the executive Director and the chairman of the Company and 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 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.

Independent Review of Auditors

The interim financial report for the six months ended 30 June 2017 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements No. 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the Shareholders.

Audit Committee and Review of Financial Statements

The Company has established the Audit Committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Norihiro Ashida, Mr. Jonathan H. Chou (chairman) and Mr. Chunyang Shao, respectively.

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The principal duties of the Audit Committee include review and supervision of the Group's financial reporting system, risk management system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2017 and considered that the results complied with relevant accounting standards, rules and regulations and appropriate disclosure have been duly made.

Disclosure of Information

The interim report of the Group for the six months ended 30 June 2017 containing all the relevant information required by the Listing Rules will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.microport.com.cn) in due course, in accordance with the Listing Rule.

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

Shanghai, The PRC, 24 August 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.

* *for identification purpose only*