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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	Financial year ended		
	2017	2016	Change
	US$'000	*US$'000*	*%*
Revenue	**444,190**	389,921	13.9
Gross profit	**318,397**	271,678	17.2
Profit for the year	**16,951**	15,069	12.5
Profit attributable to equity shareholders of the Company	**18,823**	14,141	33.1
Earnings per share –			
Basic (in cents)	**1.31**	0.99	32.3
Diluted (in cents)	**1.28**	0.98	30.6

For the year ended 31 December 2017, MicroPort Scientific Corporation (the "Company", or "MicroPort") and its subsidiaries (collectively, the "Group") successfully recorded a revenue of US$444.2 million, representing a growth of 14.7% excluding the foreign exchange impact and a growth of 13.9% in US$ compared to 2016. The segments of Cardiovascular devices, Endovascular devices, Electrophysiology devices, and Neurovascular devices grew vigorously and recorded revenue increase of 21.5%, 33.1%, 39.0% and 54.7% respectively excluding the foreign exchange impact. Orthopedics devices segment tremendously accelerated its revenue growth to 7.3% excluding the foreign exchange impact.

The Group recorded a profit attributable to equity shareholders of US$18.8 million (net profit of US$17.0 million) for the year ended 31 December 2017, with an increase of 33.1% as compared with that for the year ended 31 December 2016. The significant increase was primarily attributable to the increase in gross profit driven by revenue growth and manufacturing cost reduction of major products. The increase in gross profit was partially offset by net foreign exchange loss of US$11 million and loss from investment in Lombard Medical, Inc. of US$6.8 million attributable to equity shareholders for the year ended 31 December 2017.

* *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 2017 (the "reporting period") together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017
(Expressed in United States dollars)

	Note	**2017**	2016
		US$'000	*US$'000*
Revenue	*4*	**444,190**	389,921
Cost of sales		**(125,793)**	(118,243)
Gross profit		**318,397**	271,678
Other revenue	*5*	**9,867**	13,333
Other net (loss)/gain	*5*	**(12,407)**	7,344
Research and development costs		**(58,150)**	(51,897)
Distribution costs		**(137,766)**	(128,464)
Administrative expenses		**(66,804)**	(64,245)
Other operating costs		**(5,276)**	(1,818)
Profit from operations		**47,861**	45,931
Finance costs	*6(a)*	**(13,489)**	(16,704)
Gain on disposal of subsidiaries		**6,531**	–
Share of losses of associates		**(5,493)**	–
Share of losses of a joint venture		**(5,042)**	(3,941)
Profit before taxation	*6*	**30,368**	25,286
Income tax	*7(a)*	**(13,417)**	(10,217)
Profit for the year		**16,951**	15,069
Attributable to:			
Equity shareholders of the Company		**18,823**	14,141
Non-controlling interests		**(1,872)**	928
Profit for the year		**16,951**	15,069
Earnings per share	*9*		
Basic (in cents)		**1.31**	0.99
Diluted (in cents)		**1.28**	0.98

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017
(Expressed in United States dollars)

	2017	2016
	US$'000	*US$'000*
Profit for the year	**16,951**	15,069
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	**34,258**	(29,584)
Other comprehensive income for the year	**34,258**	(29,584)
Total comprehensive income for the year	**51,209**	(14,515)
Attributable to:		
Equity shareholders of the Company	**52,107**	(14,934)
Non-controlling interests	**(898)**	419
Total comprehensive income for the year	**51,209**	(14,515)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	**31 December 2017**	31 December 2016
		US$'000	*US$'000*
Non-current assets			
Investment properties		**5,899**	5,720
Other property, plant and equipment		**282,280**	248,885
Land use rights		**16,224**	15,638
		304,403	270,243
Intangible assets		**83,904**	68,152
Prepayments for non-current assets		**2,491**	2,010
Goodwill		**54,458**	54,458
Interest in associates		**13,998**	11,432
Interest in a joint venture		**197**	676
Available-for-sale securities		**5,000**	2,000
Deferred tax assets		**5,584**	4,739
Other non-current assets		**3,883**	3,364
		473,918	417,074
Current assets			
Inventories		**106,160**	100,863
Trade and other receivables	*10*	**162,242**	128,752
Pledged deposits		**760**	668
Cash and cash equivalents		**160,229**	123,694
Derivative financial assets		**314**	3,499
		429,705	357,476
Current liabilities			
Trade and other payables	*11*	**125,085**	96,939
Interest-bearing borrowings	*12*	**68,819**	108,456
Income tax payable		**4,989**	4,621
Derivative financial liabilities		**–**	23
		198,893	210,039
Net current assets		**230,812**	147,437
Total assets less current liabilities		**704,730**	564,511

	Note	31 December 2017 US$'000	31 December 2016 US$'000
Non-current liabilities			
Interest-bearing borrowings	*12*	**28,235**	40,085
Deferred income		**24,291**	24,231
Convertible bonds		**154,421**	147,769
Other payables	*11*	**54,796**	2,664
Deferred tax liabilities		**3,535**	3,283
		265,278	218,032
NET ASSETS		**439,452**	346,479
CAPITAL AND RESERVES	*8*		
Share capital		**14**	14
Reserves		**401,589**	332,895
Total equity attributable to equity shareholders of the Company		**401,603**	332,909
Non-controlling interests		**37,849**	13,570
TOTAL EQUITY		**439,452**	346,479

NOTES

(Expressed in United States dollars unless otherwise indicated)

1 Statement of compliance

The 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 disclosure 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 "Stock Exchange").

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. 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 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

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 and to hospitals. 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:

	2017	2016
	US$'000	*US$'000*
Orthopedics devices	**224,607**	210,158
Cardiovascular devices		
– Drug eluting stents	**155,545**	131,844
– Others	**9,778**	5,851
Endovascular devices		
– TAA/AAA stent grafts	**20,317**	14,863
– Others	**4,476**	4,029
Electrophysiology devices	**9,417**	6,961
Neurovascular devices	**13,385**	8,769
Surgical devices	**5,498**	5,535
Diabetes and endocrinal devices	**715**	1,600
Rental income	**452**	311
	444,190	389,921

For the years ended 31 December 2017 and 2016, 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 People's Republic of China (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 2017 and 2016 is set out below.

	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	**224,607**	**165,323**	**24,793**	**9,417**	**13,385**	**5,498**	**715**	**443,738**
– Rental income	**–**	**324**	**–**	**–**	**128**	**–**	**–**	**452**
	224,607	**165,647**	**24,793**	**9,417**	**13,513**	**5,498**	**715**	**444,190**
Reportable segment net (loss)/profit	**(21,341)**	**65,535**	**(327)**	**(2,018)**	**2,980**	**(2,820)**	**(1,121)**	**40,888**
Depreciation and amortisation for the year	**21,180**	**9,563**	**785**	**997**	**716**	**1,282**	**45**	**34,568**
Income tax	**2,012**	**10,226**	**1,673**	**–**	**270**	**(64)**	**–**	**14,117**
Increase of inventory provision	**1,962**	**525**	**267**	**79**	**227**	**387**	**–**	**3,447**
Impairment losses of								
– Intangible assets	**–**	**–**	**–**	**–**	**–**	**152**	**–**	**152**
– Investment in convertible bonds	**–**	**–**	**1,604**	**–**	**–**	**–**	**–**	**1,604**
Reportable segment assets	**407,087**	**436,135**	**40,087**	**19,692**	**20,662**	**28,731**	**8,633**	**961,027**
Additions to non-current segment assets during the year	**29,197**	**35,191**	**4,275**	**965**	**2,737**	**527**	**5,767**	**78,659**
Reportable segment liabilities	**154,689**	**115,116**	**5,402**	**11,069**	**3,146**	**17,453**	**–**	**306,875**

	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

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

	2017	2016
	US$'000	*US$'000*
Profit or loss		
Reportable segment net profit	**40,888**	31,075
Equity-settled share-based payment expenses	**(4,206)**	(2,795)
Unallocated exchange (loss)/gain	**(6,246)**	6,270
Gain on disposal of subsidiaries	**6,531**	–
Unallocated expenses, net	**(20,016)**	(19,481)
Consolidated profit for the year	**16,951**	15,069
Assets		
Reportable segment assets	**961,027**	805,344
Elimination of inter-segment receivables	**(96,013)**	(85,131)
	865,014	720,213
Unallocated corporate assets:		
– Cash and cash equivalents	**38,420**	54,278
– Others	**189**	59
	38,609	54,337
Consolidated total assets	**903,623**	774,550
Liabilities		
Reportable segment liabilities	**306,875**	281,502
Elimination of inter-segment payables	**(96,013)**	(85,131)
Deferred tax liabilities	**1,969**	1,855
Convertible bonds	**154,421**	147,769
Derivative financial liabilities	**–**	23
Interest-bearing borrowings	**39,719**	80,355
Other payables *(note 11)*	**52,275**	–
Unallocated corporate liabilities	**4,925**	1,698
Consolidated total liabilities	**464,171**	428,071

(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 rights, intangible assets, goodwill and investments in associates and a 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 investments in associates and a joint venture.

Revenue from external customers

	2017	2016
	US$'000	*US$'000*
The PRC (country of domicile)	**218,740**	178,899
North America	**101,924**	91,998
Europe	**61,114**	60,850
Asia (excluding the PRC)	**43,109**	39,241
South America	**13,891**	13,179
Others	**5,412**	5,754
	225,450	211,022
	444,190	389,921

Specified non-current assets

	2017	2016
	US$'000	*US$'000*
The PRC (country of domicile)	**311,950**	259,653
North America	**121,528**	122,321
Europe	**9,468**	10,536
Asia (excluding the PRC)	**5,192**	5,740
South America	**201**	279
	136,389	138,876
	448,339	398,529

5 Other revenue and net (loss)/gain

	2017	2016
	US$'000	*US$'000*
Other revenue		
Government grants *(note)*	**8,159**	12,448
Interest income on bank deposits	**1,171**	843
Interest income on the convertible bonds	**537**	42
	9,867	13,333

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$2,552,000 (2016: US$4,433,000) to compensate the Group for research expenses already incurred and conditional grants of US$5,607,000 (2016: US$8,015,000) transferred from deferred income as the conditions attaching to the grant were complied with during the year ended 31 December 2017.

	2017	2016
	US$'000	*US$'000*
Other net (loss)/gain		
Net loss on disposal of property, plant and equipment	**(715)**	(560)
Net foreign exchange (loss)/gain	**(11,006)**	6,733
Changes in fair value of embedded financial derivatives	**(3,162)**	263
Impairment losses of the convertible bonds	**(1,604)**	–
Insurance compensation in respect of damage of property, plant and equipment	**3,678**	–
Others	**402**	908
	(12,407)	7,344

6 Profit before taxation

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

	2017	2016
	US$'000	*US$'000*
(a) Finance costs		
Interest on the Otsuka Loans	**30**	2,758
Interest on the convertible bonds	**9,806**	8,715
Interest on other interest-bearing borrowings	**3,489**	4,324
Others	**275**	907
Total interest expense on financial liabilities not at fair value through profit or loss	**13,600**	16,704
Less: Interest expense capitalised into properties under development*	**(111)**	–
	13,489	16,704

* During 2017, the borrowing costs have been capitalised at a rate of 4.7% per annum.

	2017	2016
	US$'000	*US$'000*
(b) Staff costs		
Contributions to defined contribution retirement plan	**10,993**	9,816
Equity-settled share-based payment expenses	**8,736**	5,645
Cash-settled share-based payment expenses	**4,184**	1,670
Salaries, wages and other benefits	**128,760**	120,096
	152,673	137,227

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.

	2017	2016
	US$'000	*US$'000*
(c) Other items		
Amortisation[#]		
– land use rights	**367**	378
– intangible assets	**5,908**	5,670
	6,275	6,048
Depreciation of investment properties and other property, plant and equipment[#]	**29,230**	30,983
Less: Amounts capitalised as development costs	**(937)**	(950)
	28,293	30,033
Impairment losses		
– trade and other receivables	**2,286**	1,473
– intangible assets	**152**	–
– goodwill	**–**	999
– convertible bonds	**1,604**	–
	4,042	2,472
Operating lease charges: minimum lease payment	**6,510**	7,732
Rental income from investment properties	**452**	311
Research and development costs (other than amortisation costs of intangible assets)[##]	**55,453**	49,546
Cost of inventories[#]	**133,596**	125,068

[#] Cost of inventories includes US$41,371,000 (2016: US$39,304,000) 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.

[##] Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$27,062,000 (2016: US$24,245,000), depreciation of the relevant property, plant and equipment of US$3,404,000 (2016: US$3,395,000) and cost of inventories of US$6,758,000 (2016: US$6,204,000), 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:

	2017	2016
	US$'000	*US$'000*
Current tax-PRC Corporate Income Tax ("CIT")		
Provision for the year	**12,595**	9,675
(Over)/under-provision in respect of prior years	**(107)**	195
	12,488	9,870
Current tax-other jurisdictions		
Provision for the year	**1,613**	1,294
Over-provision in respect of prior years	**(44)**	(22)
	1,569	1,272
	14,057	11,142
Deferred tax		
Origination and reversal of temporary differences	**(640)**	(925)
	13,417	10,217

(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% (2016: 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 five 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% during the certified period.

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%.

(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.

The US Tax Cuts and Jobs Act ("Tax Act") was enacted on 22 December 2017 and introduces significant changes to US corporate tax law. Effective in 2018, the Tax Act reduces the federal corporate tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion tax, respectively. In addition, the new law revised the net operating loss carry forward period from 20 years to indefinite. The mandatory repatriation tax (one-time transition tax) was not applicable to the Group as the US does not have any controlled foreign subsidiaries.

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

(vi) As at 31 December 2017, 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 at applicable tax rates:

	2017	2016
	US$'000	*US$'000*
Profit before taxation	**30,368**	25,286
Notional tax on profit before taxation, calculated at the rates applicable to profit in the countries concerned	**13,686**	5,661
Effect of PRC preferential tax rate	**(7,556)**	(4,755)
Effect of equity-settled share-based payment expenses	**236**	(1,530)
Effect of other non-deductible expenses	**3,826**	2,342
Effect of super-deduction on research and development expenses	**(2,232)**	(1,703)
Effect of tax losses not recognised	**12,728**	9,830
Effect of non-taxable gain on disposal of subsidiaries	**(1,633)**	–
Effect of deductible loss arising from intra-group restructuring	**(5,783)**	(207)
(Over)/under-provision in respect of prior years	**(151)**	173
Others	**296**	406
Actual tax expenses	**13,417**	10,217

8 Capital, reserves and dividends

(a) Dividends

At the meeting of the board of directors held on 29 March 2017, the board of directors recommended the payment of a final dividend of HK$1.9 cent 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.

In August 2017, the Company paid cash dividends to shareholders of the Company totalling US$2,295,000. Furthermore, a total of 1,596,103 ordinary shares of the Company at an issue price of HK$5.958 per share were issued by the Company as the 2016 Final Dividend. Accordingly, US$1,215,000 was credited to share premium.

After the period end, the directors of the Company proposed a final dividend of HK$2.5 cent per ordinary share for the year ended 31 December 2017, which has not been recognised as a liability at 31 December 2017.

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 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

	2017		2016	
	Number of shares *'000*	**Amount** ***US$'000***	Number of shares *'000*	Amount *US$'000*
Authorised:				
Ordinary shares of US$0.00001 each	**5,000,000**	**50**	5,000,000	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,439,481**	**14**	1,426,569	14
Shares issued under share option plans	**15,986**	**–**	8,912	–
Shares issued in lieu of cash dividends *(note 8(a))*	**1,596**	**–**	–	–
Shares issued under the settlement of other current liabilities	**–**	**–**	4,000	–
At 31 December	**1,457,063**	**14**	1,439,481	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	Lowest price paid per share	Aggregate considerations paid
		US$	*US$*	*US$'000*
February 2017	1,614,000	0.75	0.73	1,195
April 2017	800,000	0.72	0.69	565
May 2017	3,018,000	0.72	0.67	2,120
November 2017	4,503,000	1.18	1.05	5,138
December 2017	600,000	1.01	0.98	599
	10,535,000			9,617

Repurchased shares held at the end of reporting period are classified as treasury shares and are presented as a decrease in the capital reserve.

9 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$18,823,000 (2016: US$14,141,000) and the weighted average number of ordinary shares of 1,433,678,000 shares (2016: 1,422,891,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2017	2016
	'000	*'000*
Issued ordinary shares at 1 January	**1,439,481**	1,426,569
Effect of issue of shares in lieu of cash dividends	**603**	–
Effect of share options exercised	**5,818**	7,454
Effect of shares under share award scheme	**(12,224)**	(11,132)
Weighted average number of ordinary shares at 31 December	**1,433,678**	1,422,891

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$18,823,000 (2016: US$14,141,000) and the weighted average number of ordinary shares of 1,474,699,000 shares (2016: 1,438,090,000 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)

	2017	2016
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,433,678**	1,422,891
Effect of deemed issue of shares under the Company's share option scheme	**41,021**	15,199
Weighted average number of ordinary shares (diluted) at 31 December	**1,474,699**	1,438,090

The calculation of diluted earnings per share amount for the year ended 31 December 2017 has not included the potential effect of the deemed conversion of the convertible bonds into ordinary shares during the year, as they have an anti-dilutive effect on the basic earnings per share amount for the year.

10 Trade and other receivables

	2017	2016
	US$'000	*US$'000*
Trade debtors due from:		
– third party customers	**126,401**	104,125
– related parties	**837**	1,443
	127,238	105,568
Less: Allowance for doubtful debts *(note 10(b))*	**(6,099)**	(5,385)
	121,139	100,183
Income tax recoverable	**–**	2,958
Amounts due from a joint venture	**6,897**	–
Amounts due from the holders of non-controlling interests in relation to the capital contributions	**9,642**	4,000
Other debtors	**12,849**	10,109
Loans and receivables	**150,527**	117,250
Deposits and prepayments	**11,715**	11,502
	162,242	128,752

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:

	2017	2016
	US$'000	*US$'000*
Within 1 month	**42,899**	30,088
1 to 3 months	**52,694**	41,319
3 to 12 months	**23,167**	19,142
More than 12 months	**2,379**	9,634
	121,139	100,183

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:

	2017	2016
	US$'000	*US$'000*
At 1 January	**5,385**	4,337
Impairment loss recognised	**2,255**	1,319
Uncollectible amounts written off	**(2,305)**	–
Exchange adjustments	**764**	(271)
At 31 December	**6,099**	5,385

The Group's trade debtors of US$6,099,000 (2016: US$5,385,000) were impaired as at 31 December 2017. 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:

	2017	2016
	US$'000	*US$'000*
Neither past due nor impaired	**92,706**	70,238
Less than 1 month past due	**14,968**	14,025
1 to 3 months past due	**6,854**	8,107
More than 3 months past due	**6,611**	7,813
	28,433	29,945
	121,139	100,183

Receivables that were neither past due nor impaired relate to a wide related 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.

11 Trade and other payables

	2017	2016
	US$'000	*US$'000*
Current		
Trade payables due to:		
– third party suppliers	**51,142**	40,586
– a joint venture	**1,009**	326
	52,151	40,912
Other payables and accrued charges	**70,066**	55,389
Dividends payable to ordinary shareholders	**89**	89
	122,306	96,390
Advances received from customers	**2,779**	549
	125,085	96,939
Non-current		
Share repurchase obligations (note)	**52,275**	–
Other payables	**2,521**	2,664
	54,796	2,664

Note: In 2017, the Group granted the put options to certain investors, being the non-controlling equity interests of Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow"), in connection with the deemed disposal of partial equity interests in MP CardioFlow.

The Group recorded the present value of the redemption price of the put options as a payable with the corresponding value decrease in capital reserve. The put options are stated at amortised cost. During the year ended 31 December 2017, the change in amortised cost of such share repurchase obligations of US$1,132,000 has been recognised directly in equity.

All of the above balances classified as current liabilities are expected to be settled within one year.

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

	2017	2016
	US$'000	*US$'000*
Within 1 month	**21,881**	19,093
Over 1 month but within 3 months	**10,714**	1,231
Over 3 months but within 6 months	**479**	210
Over 6 months but within 1 year	**273**	152
Over 1 year	**18,804**	20,226
	52,151	40,912

12 Interest-bearing borrowings

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

	2017	2016
	US$'000	*US$'000*
Within 1 year or on demand	**68,819**	108,456
After 1 year but within 2 years	**25,827**	21,468
After 2 years but within 5 years	**2,408**	18,617
	28,235	40,085
	97,054	148,541

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

	Note	**2017**	2016
		US$'000	*US$'000*
Bank loans			
– secured	*(a)*	**46,871**	43,605
– unsecured		**50,000**	64,415
		96,871	108,020
Secured Otsuka Loans	*(b)*	**–**	40,355
Secured other borrowings		**183**	166
		97,054	148,541

(a) Bank loans

At 31 December 2017, the bank facilities of the Group were secured by land use rights and buildings held for own use with net book value of US$8,725,000 and US$110,750,000, respectively (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").

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.

BUSINESS OVERVIEW

Overview

In 2017, the medical device industry has continued to grow. With the increase of financial subsidies for urban and rural health care, as well as the advancement of the integrated medical system and hierarchical diagnosis and treatment system, China's health resources continued to be in high demand and the market for the medical device industry was expanding. The government continues to encourage the localization of medical devices and standardize the development of the industry, starting from the two areas of innovation and regulation. The successive publication of the "Opinion on Deepening the Reform of the Examination and Approval System for Encouraging Innovations of Drugs and Medical Devices" (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》), the "13th Five-Year Plan for Projects of Science and Technology Innovation for the Medical Devices" (《「十三五」醫療器械科技創新專項規劃》) and the "Implementation Plan for Key Technology Industrialization of High-end Medical Devices" (《高端醫療器械關鍵技術產業化實施方案》), are aimed at improving the overall scientific and technological innovation capability of the medical device industry in China by relying on industrial backbone enterprises with strong innovation capability, strong economies of scale, high quality control standards and international vision. Meanwhile, measures such as simplifying and optimizing procedures, shortening clinical trial cycles and expediting approvals will vigorously promote the research and innovation of domestic medical devices and accelerate the rate at which China matches international standards. On the other hand, the increasingly tightened supervision over the circulation field and the bidding process continues to pose challenges to the medical device industry. The increasingly standardized market will eliminate enterprises with sub-standard operations and low product quality, whilst integrating industry resources, and accelerating the contribution of innovative products and the centralization process of China's medical device industry. It helps resume the value of products towards their contribution to medicine and treatment for patients, and meeting our growing need for health care and pursuit of good health. In the international market, the newly issued EU medical device regulations require sufficient clinical data for the registration of new products. As a result, additional criteria are imposed on medical devices for the European market as a whole, to the effect that domestic products entering the international market have to meet higher requirements in respect of research and development, manufacturing, quality control and international operation capability. Instead of relying on the cost and price advantages, Chinese companies should make use of their leading technological superiorities, global vision and international operation exposure of the domestic medical devices to establish the "Made in China" brand in the international market.

As of 31 December 2017, there were seven business segments in the Group, namely, orthopedics, cardiovascular, endovascular, electrophysiology ("EP"), neurovascular, surgical management as well as diabetes care and endocrinal management, which cover over 260 varieties of medical devices.

In 2017, based on the government policies, the Group formulated, adjusted and refined its various business strategies to ensure a steady progress of its research and development projects, an optimization and smooth operation of sales channels, a continuous expansion of emerging markets and a continued improvement of operating efficiency. During the year, the Group has achieved steady and healthy growth in revenue from all business segments. For the year ended 31 December 2017, the Group recorded revenue of US$444.2 million, representing an increase of 13.9% from 2016, and excluding the foreign exchange impact the increase was 14.7% and net profit was US$17.0 million (profit attributable to equity shareholders: US$18.8 million).

For the year ended 31 December 2017, the Group derived 50.6% of its revenue from the orthopedics segment, 37.3% from the cardiovascular segment, 5.6% from the endovascular segment, 2.1% from the EP segment, 3.0% from the neurovascular segment, 1.2% from the surgical management, and 0.2% from diabetes care and endocrinal management. In 2017, the Group's orthopedics business was further improved and its leading position in the cardiovascular devices market was maintained. Other business segments also attained good performance in their respective markets. The Group's key products have achieved material progress in the international market.

Orthopedics Devices 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 Chain Center (the "GSC") established in 2015 provides centralized purchasing and logistic distribution services of surgical instruments for joints, spine and trauma in order to optimize the management of surgical instruments and consumables used in the implantation of our products.

Based on the unique concept of "Full Function, Faster™", MicroPort orthopedics strives to promote its corporate brand worldwide, strengthen the recognition of MicroPort orthopedics in the industry and enhance its brand awareness. With strict control over operating costs and expenses, the strategy to adjust the regional mix of product sales and endeavor to improve operational efficiency, our orthopedics devices business achieve a rapid growth in revenue and a significant reduction in operating loss. During the year, our orthopedics devices business achieved a revenue of US$224.6 million, representing a year-on-year increase of 7.3% (excluding the foreign exchange impact).

The international (non-China) orthopedics business has achieved milestone during the reporting period. Revenue of our international orthopedics business grew by 6.2% (excluding the foreign exchange impact) as compared to last year, far exceeding the market average and also marking the fastest revenue growth for joints products in over a decade. By region, our international orthopedics business had excellent performance in all countries or regions including Europe and Australia. Business in the U.S. realized a growth rate of 10.5% (excluding the foreign exchange impact), far above the average of the local market. Business in Japan experienced a rapid growth rate of 9.3% (excluding the foreign exchange impact), resulting in an even higher factor to the local market trend in a country where we had been experiencing decline over many years. While recording a higher growth in revenue, the international orthopedics business also performed well in terms of profit. During the reporting period, losses of the international orthopedics business narrowed substantially from US$19.4 million in 2016 to US$8.7 million, and breakeven was achieved in the fourth quarter of 2017. Its gross profit margin was also

significantly improved. During the year the international orthopedics business built up the ability to self fund its operations and enjoyed healthy EBITDA. The above results mainly benefitted from our efforts in the following aspects: great execution of refined management in business operation contributed; further promotion of the brand awareness of MicroPort Orthopedics through celebrity endorsement; and the launch of more new products in the market enriched our product portfolio. In 2017, we launched Evolution™ Revision Tibial System around the world, and introduced for the first time the Procotyl™ Prime Acetabular Cup System in the U.S. market, which was the largest new products launch by the Company to date. At the same time, we adjusted our sales strategy to invest more resources in markets with high gross profit margin around the world. In terms of our clinical progress, in February 2017, a third party carried out a study to evaluate long-term clinical and radiographic outcomes of our Medial-Pivot Knee System, whose results demonstrate excellent clinical outcomes for both satisfaction (95%) and survivorship (98.8%) at 17 years.

Our China orthopedics business, including joint, spine and trauma, the GSC and orthopedics instrument business, experienced a rapid development during the reporting period. In 2017, the sales revenue of our China orthopedics business grew by 28.3% (excluding the foreign exchange impact) as compared to that of last year. It was mainly due to the significant increase of clinical implants, especially driven by the excellent performance of our premium and Unique product – Evolution™ Medial-Pivot Knee System. In 2017, through active organization and participation of various academic promotion activities, our China orthopedics joint business has effectively enhanced the brand awareness and recognition of MicroPort Orthopedics in China and has further expanded the hospital coverage of the products. During the year, our joint products developed 87 new hospitals. At the same time, we strived to improve the quality of hospital coverage by enhancing the average number of surgical procedures in each covered hospital, so as to improve surgical instrument turnover rate and reduce operational cost. With the favorable product mix and our continuous optimization of operational cost, the gross profit margin of China orthopedics joint business was also improved. In 2017, spine and trauma business focused on re-branding with our increased emphasis on developing spine products. The renewed market approach gained comprehensive recognition by the market proven by the significant increase in implant volume of spine product. GSC which maintained stable operation for two years contributed to optimize business operation and to reduce manufacturing cost. While enhancing our service capacity in an orderly manner, we actively explored new businesses and international market by attending a variety of academic conferences. Orthopedics instrument business developed multiple products in 2017. Premium surgical instrument for joint surgeries will not only improve our service quality, but also promote cost savings and profitability.

Cardiovascular Devices Business

Our 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 balloon catheters and accessories.

In 2017, our cardiovascular business has continued to maintain its market leading position in China. Driven by the rapid sales growth of our premium product, the world's first and only Firehawk™ Coronary Rapamycin Target Eluting Stent ("DES") ("Firehawk™") and the steady income contribution of the value-end product Firebird™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird™"), our cardiovascular business achieved a revenue of US$165.6 million during the reporting period,

representing a year-on-year increase of 21.5% (excluding the foreign exchange impact). In the Chinese market, the stent business achieved a rapid growth of 20.0% (excluding the foreign exchange impact) in sales revenue, of which, Firehawk™ recorded a year-on-year increase of 61.1% (excluding the foreign exchange impact) in revenue and Firebird™ recorded a year-on-year increase of 9.0% (excluding the foreign exchange impact) in revenue. The proportion of Firehawk™ in the overall revenue of the Group's DES increased from 24.0% in 2016 to 31.9% in 2017. Balloon products also achieved excellent performance during the reporting period, with its revenue growth rate stood at 51.7% (excluding the foreign exchange impact). In addition, Firehawk™ also witnessed great sales performance in overseas market, the overseas revenue growth of Firehawk has increased substantially by 53.3% (excluding foreign exchange impact) as compared to 2016.

In 2017, our cardiovascular business also made important progress in market expansion. Our coronary DES covered over 1,400 hospitals in China (excluding Hong Kong and Macao), representing a year-on-year increase of 13.8%. Of which, hospital coverage of Firebird™ increased 10.1% year on year, hospital coverage of Firebird™ increased 58.3% year on year. The new market development department set up at the beginning of 2017 greatly contributed to the market promotion of the cardiovascular business. We achieved great progress in developing county-level hospitals during the reporting period. The hospital coverage in Tier II or Tier III cities is further expanded with a year-on-year increase of 58.3%. In 2017, Firehawk™ has successfully gained regulatory approval to enter the market of Taiwan, China, becoming the first Mainland China coronary DES that was granted access to the Taiwanese market. For the international market, Firehawk™ is available for sale in 32 countries, with 4 countries more than that in 2016 including Mexico, South Korea, Araba and Kazakhstan.

In respect of clinical trial, progress was made in Firehawk™ TARGET global series of clinical projects in a steady and orderly manner. We received outstanding results from the on-going clinical trail TARGET ALL Comer ("TARGET AC") in well-developed market in Europe, as well as the TARGET I clinical trials in China. According to the data of clinical follow-up, the Strut Coverage Rate at 3 months is 99.9% in TARGET AC, and the Def/Prob Stent Thrombosis at 5 years is 0% in TARGET I for Firehawk™. Meanwhile, to expand the promotion of Firehawk™ in the Southeast Asia region, we conducted a large-scale clinical project of TARGET Malaysia Registry in 10 public hospitals directly under the Ministry of Health of Malaysia during the year, with a planned patient enrollment of 1,153 cases.

Endovascular Devices Business

Our 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.

During the reporting period, the endovascular devices business recorded a revenue of US$24.8 million, representing a strong growth of 33.1% (excluding the foreign exchange impact) as compared to that of last year, and continued to maintain leading position of market share in China. The above increase was mainly attributable to the excellent safety and efficacy of our products. For example, Hercules™ Low Profile Thoracic Branch Stent-Graft system achieved a year-on-year growth of 57.3% (excluding the foreign exchange impact), and the Hercules™-B Abdominal Aortic Stent-graft and Delivery System recorded a year-on-year growth of 20.5% (excluding the foreign exchange impact) in sales. Castor™

Thoracic Branch Stent-Graft System ("Castor™"), the world's first stent graft specially designed for endovascular treatment of thoracic aorta and great vessels of the arch simultaneously, obtained China Food and Drug Administration (the "CFDA") Approval in June 2017 and the first implant was performed in September. As of 31 December 2017, Castor™ was available for sale in almost 50 core hospitals in China. Meanwhile, we made important progress with regard to market development in China, especially in second-or-third-tier cities. During the reporting period, we have newly developed nearly 100 hospitals and more than half of which are county hospitals or Tier II hospitals.

In 2017, strategic investors with professional backgrounds were introduced to the endovascular devices business at a premium valuation of RMB1,815 million, which will fuel the sustainable development of the business in the long run.

In 2017, the project of "Key Technology Development and Large-scale Industrialization of Aortic Stent Graft Products" won the second prize of the State Science and Technology Progress Award, as well as the first prize of the Shanghai Science and Technology Award. It is the fifth State Science and Technology Progress Award earned by the Group, making the Group the only medical company winning the national award for four consecutive years.

EP Devices Business

The principal business of the EP devices segment is the 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 radio frequency ablation, providing physicians and patients with a more comprehensive EP product instrument portfolio. We have also become the only company that can provide a complete set of 3D integrated solutions for diagnosis and treatment of complex arrhythmia among the domestic peers.

In 2017, the EP devices segment recorded a year-on-year growth of 39.0% (excluding the foreign exchange impact) in revenue, of which, domestic sales increased by 36.1% (excluding the foreign exchange impact) as compared to that of last year, international sales grew by 65.1% (excluding the foreign exchange impact) year on year. The above increase was mainly derived from the premium quality of our in-house-developed products as well as our unceasing efforts in expanding market and sales channels. During the reporting period, our EP devices were used in nearly 300 EP our products are sold clinical centers in China, up 31% year on year. For the international market, our key products gained regulatory approval in multiple countries, specially, FireMagic™ Cardiac RF Ablation Catheter and EasyFinder™ Fixed Curve Diagnostic Catheter have gained market access in South Korea. FireMagic™ 3D Irrigated Ablation Catheter, FireMagic™ Cardiac RF Ablation Catheter, EasyFinder™ Fixed Curve Diagnostic Catheter and EasyLoop™ Circular Mapping Catheter have obtained regulatory approval in Thailand. By 31 December 2017, we have achieved steady sales in 9 countries including Dominica and Korea, with 5 countries more than last year.

On 15 August 2017, the EP business was officially quoted on the National Equities Exchange Quotations ("NEEQ"), which shall provide the EP business with a better financing platform and enable the capital market to draw reference on the fair value of the EP devices segment.

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 available for sale in 2017. APOLLO™ Intracranial Stent System ("APOLLO™") for cerebral ischemia is for treatment of 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, there are a number of products under research and development to be added to the neurovascular product portfolio in future.

In 2017, the neurovascular devices business continued its rapid growth and its revenue increased by 54.7% (excluding the foreign exchange impact) as compared to that of last year. Of which, revenue of our APOLLO™ with 13 years' history of safe application grew by 35.6% (excluding the foreign exchange impact) as compared to that of last year, which was mainly attributable to the excellent product performance and the domain market share, as well as the increasing number of thrombectomy procedures in China. WILLIS™, the only stent graft system for treatment of intracranial aneurysms in China, has achieved a growth of 52.0% (excluding the foreign exchange impact) in sales revenue as compared to last year, which was primarily benefited from the uniqueness and excellent performance of WILLIS™ as well as the expansion of its sales coverage which led to significant increase in product implant volume. During the reporting period, the hospital coverage of APOLLO™ and WILLIS™ further expanded, which led to the solid progress in market development.

Surgical Management Business

The surgical management business focuses on research and development, production and sales of extracorporeal circulation products herniorrhaphy series products and occlusion series products used for Congenital Heart Disease. The main products of surgical management include extracorporeal circulation series consumable products such as Oxygenation System (artificial lungs), occlusion series products and general surgical polypropylene herniorrhaphy series products.

In 2017, the surgical management business department actively explored the domestic market and newly developed 50 hospitals and recorded a revenue growth of 0.6% (excluding the foreign exchange impact) as compared to last year. As a new product launched in the market, herniorrhaphy series products will further enrich the product portfolio of the Group and become a catalyst for sales growth in future. The surgical management business also has several important products at the research and development stage, which will further extend the product portfolio of the surgical management business.

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

MSC was founded by the Group and Sorin Group with a shareholding of 51% and 49% respectively. 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 2017, under the objective of "Serving China", MSC continued to facilitate the sales of Sorin products in a steady manner and actively expanded the market in China. During the year, the objective of "Made-in-China" has made a significant breakthrough. In September 2017, the Rega™ Family Implantable Pacemakers ("Rega™ Pacemakers") of the MSC obtained CFDA approval with exemption for clinical trials. Rega™ Family Pacemakers have three series (Orchidee™, Trefle™, and Rega™) with a total of eight models. Such series of products are the first domestic pacemakers with world-class quality. Rega™ Pacemakers have features of automation and advanced algorithm. With a size of only 8 cubic centimeters, it is currently the smallest pacemaker in the market, with a battery service life of 10 to 12 years. In December 2017, a national launch meeting for these series products was held, which gained widespread attention from the industry. First implant of domestic pacemaker was completed in March 2018. In 2017, our independently developed BonaFire™ pacing leads completed clinical follow up. The pre-marketing clinical trial of our independently-developed pacing system analyzer was also completed.

Research and Development ("R&D")

Excellent R&D capacity and the effective and steady advancement of R&D plans are the core drivers for the sustained development of a medical device company. Independent research and input of domestic medical device products with international standard is not only the sole choice for a company to maintain its excellent competitive strength, but also an effective way to provide global patients with a better medical treatment with better efficacy and at more affordable price. As a leading company engaged in R&D, production and sales of domestic medical devices, we aim to achieve the objective of import substitution and building "made in China" brand with higher standards and better practice. Since the Group's establishment, by adhering to the principle of saving patients' lives or improving their life quality, the Group has been enhancing its independent R&D capability, actively cooperating with advanced technologies worldwide so as to maintain its leading scientific and technological R&D capability. In 2017, our R&D projects were in orderly progress.

For Orthopedics products, EVOLUTION™ Revision Tibial System and Procotyl™ Prime Acetabular Cup System gained the United States Food and Drug Administration (the "U.S. FDA") approval in 2017. As for China Orthopedic business, the domestic Knee and hip products are expected to gain CFDA approval in 2018 and 2019, respectively.

Significant breakthroughs were achieved in the clinical progress of our cardiovascular business. The new generation of the Firefighter™ PTCA Balloon Dilatation Catheter was approved for market launch by the CFDA. During the reporting period, we continued the development of our independently developed Firesorb™ Bioresorbable Rapamycin Target Eluting Coronary Stent System ("Firesorb™"). In March 2017, the Group announced the one-year clinical and angiographic results of the first-in-man clinical trial (FUTURE-I) for Firesorb™, which further-demonstrated the feasibility, preliminary safety and efficacy of Firesorb™ for the treatment of coronary heart diseases. In August of the same year, the key clinical trials of Firesorb™ FUTURE-II successfully enrolled its first patient. This is a prospective, multi-center, randomized clinical trial, aiming to evaluate the safety and efficacy of Firesorb™ in the treatment of coronary artery atherosclerosis.

As for our structural heart business, in 2017, our VitaFlow™ Transcatheter Aortic Valve and its Delivery System ("TAVI") ("VitaFlow™") has successfully completed domestic clinical follow-up and acquired excellent follow-up data, which effectively proved the safety and effectiveness of VitaFlow™ for treating patients with severe aortic stenosis. At the beginning of 2018, we successfully submitted the materials for CFDA registration for VitaFlow™ through CFDA Green Path, the special review procedure regarding innovative medical device ("CFDA Green Path"). At the same time, we carried out R&D on the second generation of VitaFlow™ products.

During the reporting period, notable progress was made in the clinical registration of the endovascular devices business. During the reporting period, the Reewarm™ PTX Drug Balloon Dilation Catheter also obtained approval for registration by the CFDA. The Minos™ Ultra Low Profile Abdominal Aortic Stent-graft System, the first and only system with 14F delivery system epitheca in China, and Talos™ thoracic aortic stent-graft system was granted CFDA Green Path.

In 2017, the APOLLO™ in large size in the neurovascular business segment obtained CFDA approval, which filled the gap of the clinical needs for intracranial stents in large size and further strengthened our leadership position in the neuro-intervention market. Our Tubridge Vascular Reconstruction Device, which is indicated for the treatment of intracranial large and giant aneurysms, gained CFDA approval in the in March 2018. Meanwhile, Vertebral Artery Rapamycin DES was granted the CFDA Green Path, the device is the first drug-eluting stent in the world indicated for the treatment of vertebral artery stenosis.

In 2017, a number of advancements were made in the clinical trials and registration of the EP devices segment. The FireMagic™ 3D Ablation Catheter, the OptimAblate™ Irrigation Pump, the PathBuilder™ Transseptal Guiding Introducer and Needle and RhythmWatch™ Single-channel Electrocardiograph ("RhythmWatch™") successively obtained CFDA approval. The Flashpoint™ Renal Artery RF Ablation Catheter and the Pressure Sensing Magnet Location Irrigated Ablation Catheter were granted access to the CFDA Green Path. In February 2018, RhythmWatch™ Single-lead ECG Recorder is the 1st product to gain Shanghai Food and Drug Administration ("SHFDA") approval according to the Registration Policy that was newly come into effect. The approval time is shortened by nearly $^{4}/_{5}$.

In 2017, major technological progress was made in several surgical robot projects. The project "Research on a Minimal Invasive, High Efficiency Orthopedic Robotic System" reported by the Group was funded by the National "13th Five-Year Plan" key special program of the Ministry of Science and Technology. It was the first joint surgical robot project supported by the key special program of the Ministry of Science and Technology of the PRC.

Manufacturing

In 2017, the Group continued to focus on the refined management of the supply chain process, automation and digitization of the production process, instillation of the safety culture and the effective implementation of energy saving and emission reduction.

In order to meet the rapidly growing market demand while implement refined production management, for the production capacity improvement projects, the Group aim to increase the output rate of existing resources, dilute the fixed cost, and reduce the manufacturing cost with no or little additional investment. At the same time, the Group developed in-house or introduced higher cost-effective equipment to improve output efficiency of resources per unit. During the year, the Group have completed development or introduction of cost-effective equipment by actively cooperating with relevant departments of the Group and completing the cost reduction of various materials.

For the production capacity improvement projects, the Group aimed to increase the output of our existing resources through process optimization and management improvement without increasing investment of resources or with little investment of resources. In order to enhance automation and intelligence standard of production process, in 2017, improvement was carried out in automation of production equipment and electronic/paperless production records, which substantially improved the electronic data production process for our products. It has a positive effect on the strengthening of operation management, enhancing recovery capability, achieving rapid response and promoting intelligent manufacturing.

Quality Assurance

Priority is given to "quality" in the values of the Group as we know the quality of each our products has close bond with human life. The Group 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 process, including R&D, product design, procurement of raw materials, manufacturing, product release, product feedback and risk management, so as to guarantee the consistency of product quality meeting the Group's 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.

During the year, the Group went through a large amount of work on regulation compliance research of major countries, and refining improvement of document control in the form of a special research group, and output dozens of regulatory difference analyses and compliance checklists. By identifying the differences, we formulated implemented improvement plans. The Group has achieved initial results in system compliance of process validation, compliance training, electronic signatures, electronic records, software validation and other factors during the year. At the same time, in order to adapt to the changing needs of external regulatory models and promote the overall quality improvement of the Group, in 2017, the internal audit of the Group's quality management system was conducted via an unannounced inspection. We evaluated the compliance, suitability and effectiveness of the quality management system of each company to identify opportunities for improvement, and promoted continuous enhancement of our quality management system.

Competition

The environment in which we operate is continuously evolving. As the domestic market leader among the PRC companies manufacturing medical devices, the Group is facing competition both domestically and internationally. Based on the safety and effectiveness of our products that have been clinically tested and marketed worldwide, and our extensive product development pipelines that we have cultivated vigorously over the years, we are confident that we will maintain our current leading market position domestically and continue to expand the overseas market share.

Intellectual Property

Intellectual property is an important intangible asset of the Group, and also an inherent driver to enhance our core competitiveness in the medical devices market. Thus, we attach great importance to the intellectual property protection of in-house developed products, and implement the best intellectual property operation strategies globally to match and protect the Company's globalization strategy. In 2017, we filed 205 patents application and 49 trademarks application domestically and internationally. At the end of the year, we had a total of 3077 patents (application) covering 28 countries and 1292 trademarks (application) covering 64 countries.

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 13.9% for the year ended 31 December 2017 and maintained our leading position in China. We firmly continued to provide diversified products and continued our globalization strategy thereby generated 50.8% of our revenue from overseas market. We aim to continuously bring our innovations, technologies and services to millions of global patients and become a patient-oriented global leading enterprise in minimally invasive treatment and other emerging medical market.

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

REVENUE

US$'000	**Financial year ended**		Percent change	
	2017	2016	in US$	excluding the foreign exchange impact
Orthopedics devices business	**224,607**	210,158	6.9%	7.3%
– US	**97,074**	87,872	10.5%	10.5%
– EMEA	**58,930**	58,795	0.2%	(0.7%)
– Japan	**31,377**	29,631	5.9%	9.3%
– PRC	**13,472**	10,573	27.4%	28.3%
– Others	**23,754**	23,287	2.0%	1.7%
Cardiovascular devices business	**165,647**	137,941	20.1%	21.5%
Endovascular devices business	**24,793**	18,892	31.2%	33.1%
Electrophysiology devices business	**9,417**	6,961	35.3%	39.0%
Neurovascular devices business	**13,513**	8,834	53.0%	54.7%
Surgical devices business	**5,498**	5,535	(0.7%)	0.6%
Diabetes devices business *(*Note)*	**715**	1,600	(55.3%)	(53.7%)
Total	**444,190**	389,921	13.9%	14.7%

**Note:* During the 12 months ended 31 December 2017, this segment was restructured whereby the Group ceased to hold the controlling interest in 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 year ended 31 December 2017, only accrued for the period from 1 January 2017 to the date the Group ceased to hold the controlling interest as compared to a full year for the year ended 31 December 2016.

Our revenue for the year ended 31 December 2017 was US$444.2 million, increasing by 13.9% compared to US$389.9 million for the year ended 31 December 2016. Our reported revenue was impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries, to US$, the presentation currency of the Group due to the appreciation or depreciation of US$ against RMB. Excluding the foreign exchange impact, our revenue growth rate was 14.7%. 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$224.6 million for the year ended 31 December 2017, representing a growth of 7.3% excluding the foreign exchange impact and 6.9% in US$ compared to the year ended 31 December 2016. Such increase was mainly attributed to (i)

revenue in the United States market which achieved 10.5% growth in 2017 excluding the foreign exchange impact through our focus on opening new sales channels, surgeon training effectiveness, and the launch of new products which encouraged robust and tremendous revenue growth in the US market; (ii) operation revenue in Japan increased by 9.3% excluding the foreign exchange impact. By seeing positive momentum from the Japanese market with solid growth in both knee and hip implants by a focus on sales execution and customer development, Japan's knee implant sales are performing at a record level; (iii) the operation revenue in EMEA market decreased by 0.7% excluding the foreign exchange impact over the prior year, mainly affected by timing of orders from stocking distributors and the strategy to shift away from lower margin sales channels for optimized utilization of limited corporate resources; (iv) revenue in the PRC market increased by 28.3% excluding the foreign exchange impact compared to the year ended 31 December 2016, which was attributable to greater market recognition from surgeons leading to the significant increase in implants; and (v) revenue in other markets increased by 1.7% excluding the foreign exchange impact driven by steady growth in Australia, Canada and Brazil market.

– *CARDIOVASCULAR DEVICES SEGMENT*

Our cardiovascular devices segment achieved a revenue of US$165.6 million for the year ended 31 December 2017, representing a significant growth of 21.5% excluding the foreign exchange impact or a growth of 20.1% in US$ compared to the year ended 31 December 2016. Such 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 59.8% growth excluding the foreign exchange impact compared with the year ended 31 December 2016; and (ii) Firebird2™ sales in the PRC market maintaining an organic growth of 9.0% excluding the foreign exchange impact through advanced distribution channels.

– *ENDOVASCULAR DEVICES SEGMENT*

Our endovascular devices segment achieved a revenue of US$24.8 million for the year ended 31 December 2017, representing a growth of 33.1% excluding the foreign exchange impact or a growth of 31.2% in US$ compared with the year ended 31 December 2016. Such growth was mainly attributable to the following factors: (i) the continued momentum of the rapidly expanding endovascular market in China; (ii) positive market recognition for the launch of Hercules™ Low Profile products and the newly launched product Castor™ which enhanced competitiveness of MicroPort endovascular products in the thoracic aortic aneurysm and endovascular treatment market; and (iii) in response to government guidelines, cultivating markets in second-and third-tier cities through effective promotion mechanisms.

– *EP DEVICES SEGMENT*

Our EP devices segment recorded a revenue of US$9.4 million for the year ended 31 December 2017, representing a growth of 39.0% excluding the foreign exchange impact or a growth of 35.3% in US$ compared to the year ended 31 December 2016. Such increase was mainly attributable to the significant expansion of our distribution network and hospital coverage, the premium quality of the

in-house-developed products, as well as rapid revenue growth of new products i.e. Columbus™ 3D EP Navigation System, FireMagic™ 3D Irrigated Ablation Catheter and FireMagic™ Cardiac RF Ablation Catheter ,which were launched in 2016.

– *NEUROVASCULAR DEVICES SEGMENT*

Our neurovascular devices segment recorded a revenue of US$13.5 million for the year ended 31 December 2017, representing a growth of 54.7% excluding the foreign exchange impact or a growth of 53.0% in US$ compared to the year ended 31 December 2016. Such growth was mainly attributable to: (i) the organic growth of 35.6% excluding the foreign exchange impact in APOLLO™ Intracranial Stent System driven by its greater market recognition; (ii) WILLISS™ penetrating into an increasing number of hospitals after officially listed in Shanghai's Drug Reimbursement List in April 2016, which contributed to the significant growth of 52.0% excluding the foreign exchange impact; and (iii) positive market recognition for the newly launched specification of the Intracranial Stent System.

– *SURGICAL MANAGEMENT SEGMENT*

The segment of surgical management devices recorded a revenue of US$5.5 million for the year ended 31 December 2017, representing an increase of 0.6% excluding the foreign exchange impact or a decline of 0.7% in US$ as compared to the year ended 31 December 2016. The increase was primarily attributable to the sales growth of ultrafiltration, occludes and surgical consumables driven by effective sales promotion activities.

– *DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT*

Our diabetes care and endocrinal management segment achieved a revenue of US$0.7 million for the year ended 31 December 2017, representing a decline of 53.7% excluding the foreign exchange impact or a decrease of 55.3% in US$ compared to the year ended 31 December 2016. During the year ended 31 December 2017, this segment had been restructured whereby the Group ceased to hold the controlling interest in MP Lifesciences Shanghai who subsequently became an associated entity of the Group. As a result, the revenue of this segment disclosed herein for the year ended 31 December 2017 only accrued for the period from 1 January 2017 to the date of the Group ceased to hold the controlling interest, as compared to a full year for the year ended 31 December 2016.

COST OF SALES

For the year ended 31 December 2017, our cost of sales was US$125.8 million, representing a 6.4% increase as compared to US$118.2 million for the year ended 31 December 2016, which was primarily driven by the increased sales volume.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit increased by 17.2% from US$271.7 million for the year ended 31 December 2016 to US$318.4 million for the year ended 31 December 2017. Gross profit margin is calculated as gross profit divided by revenue. Our gross profit margin increased to 71.7% for the year ended 31 December 2017 as compared to 69.7% for the year ended 31 December 2016, primarily as a result of (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 OTHER NET (LOSS)/GAIN

We had other revenue of US$9.9 million and other net loss of US$12.4 million for the year ended 31 December 2017, while other revenue and other net gain were US$13.3 million and US$7.3 million, respectively, for the year ended 31 December 2016. The decrease in other revenue was attributed to the decrease in government grant; and change of other net (loss)/gain was primarily due to the foreign exchange net loss for the year ended 31 December 2017 as compared with a foreign exchange net gain for the year ended 31 December 2016.

GAIN ON DISPOSAL OF SUBSIDIARIES

We had a gain on disposal of subsidiaries of US$6.5 million for the year ended 31 December 2017, representing the gain on disposal of an aggregate of 60% equity interest in MP Lifesciences Shanghai. The gain on disposal was determined by the difference between (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 12.0% from US$51.9 million for the year ended 31 December 2016 to US$58.2 million for the year ended 31 December 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 7.2% from US$128.5 million for the year ended 31 December 2016 to US$137.8 million for the year ended 31 December 2017. Such increase was mainly attributable to (i) an increase in bonuses to the sales representatives; and (ii) an increase in admission fees and other expenses for broader participation in a variety of industry conferences and events.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 4.0% from US$64.2 million for the year ended 31 December 2016 to US$66.8 million for the year ended 31 December 2017, which was mainly driven by the increase in reward under the share option scheme and share award scheme.

OTHER OPERATING COSTS

Other operating costs increased by 190.2% from US$1.8 million for the year ended 31 December 2016 to US$5.3 million for the year ended 31 December 2017. The increase was mainly attributable to the related professional fees for business acquisition.

FINANCE COSTS

Finance costs decreased from US$16.7 million for the year ended 31 December 2016 to US$13.5 million for the year ended 31 December 2017. The decrease was mainly driven by the repayments of the Otsuka Loans and part of bank loans during the year ended 31 December 2017.

INCOME TAX

Income tax increased from US$10.2 million for the year ended 31 December 2016 to US$13.4 million for the year ended 31 December 2017. This is primarily attributable to the increase in profit before tax of the PRC subsidiaries.

No deferred tax assets have been recognized for tax losses and deductible temporary differences of loss-making entities as of 31 December 2017.

CAPITAL MANAGEMENT

The primary goal of the Group's capital management is to maintain the Group's stability and growth, safeguard its normal operations and maximize shareholders' value. The Group reviews and manages its capital structure on a regular basis, and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of bank loans or issuance of equity or convertible bonds.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2017, we had cash and cash equivalents of US$160.2 million, 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, including interest-bearing borrowings and convertible bonds, as of 31 December 2017 were US$251.5 million, with a decrease of US$44.8 million as compared to US$296.3 million as of 31 December 2016. As of 31 December 2017, the gearing ratio (calculated by dividing total borrowings by total equity) of the Group dropped to 57.2%, while that as of 31 December 2016 was 85.5%.

NET CURRENT ASSETS

Our net current assets as at 31 December 2017 were US$230.8 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 year ended 31 December 2017, the Group recorded a net exchange loss of US$11.0 million, as compared to a net foreign exchange gain of US$6.7 million for the year ended 31 December 2016. 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 2017, the Group's total capital expenditure amounted to approximately US$78.2 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 2017, the Group had set mortgage on its manufactory building, headquarter building 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$46.9 million.

FUTURE INVESTMENT PLANS AND EXPECTED FUNDING

Looking forward, the Group will continue to expand its markets at home and abroad so as to tap into its internal potential, hereby maximizing Shareholders' interest and creating higher value. We will continue to grow the Group both in scale and strength through self-development, acquisitions, M&A and other means. Our future business plan will employ a combination of financing channels to finance capital expenditures, including but not limit to internal funds and bank loans. Currently, the bank credit lines available to the Group are adequate.

SUBSEQUENT EVENTS

1. On 20 November 2017, the Company (as guarantor), MicroPort Cardiac Rhythm B.V. (the "Purchaser") incorporated in Netherlands, and LivaNova PLC ("LivaNova") (as seller), a public limited company incorporated in the U.K. with a limited liability and the share of which are listed on the Nasdaq Global Select Market (stock code: LIVN) entered into a legally binding letter of intent, pursuant to which the parties have agreed to enter into a stock and asset purchase agreement (the "Stock and Asset Purchase Agreement") upon clearance of the Works Council Process in France. The Purchaser is wholly-owned by the Group through MicroPort International Corp. Limited ("MP HK").

   As of 27 February 2018, the Works Council Process in France has been concluded. On 8 March 2018, the Company, the Purchaser and LivaNova entered into the Stock and Asset Purchase Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire, and the LivaNova has conditionally agreed to sell, the CRM Business (the "Acquisition") for an initial consideration of US$190 million, subject to working capital and other customary adjustments.

   The Acquisition is to be accounted for as a business combination in accordance with HKFRS 3 Business Combinations. The closing of the Acquisition under the Stock and Asset Purchase Agreement is conditional upon the satisfaction of certain conditions, including but not limited to the approval from the shareholders for Company.

   On 20 February 2018, the Company, the Purchaser, MP HK and Sino Rhythm Limited ("SRL", a third party, who is wholly-owned by Yunfeng Fund III, L.P.), entered into a contribution and shareholders' agreement ("the Contribution and Shareholders' Agreement"), pursuant to which, each of MP HK and SRL has agreed to contribute funds to the Purchaser to enable the Purchaser to consummate the Acquisition. MP HK's contribution shall be 75% of the total contribution (being a maximum amount of US$150 million), and SRL's contribution shall be 25% of the total contribution (being a maximum amount of US$50 million). Upon completion of the Contribution and Shareholders' Agreement, the Purchaser will be owned as to 75% by MP HK and 25% by SRL.

   Further details of abovementioned agreements are set out in the Company's announcements dated 20 November 2017, 20 February 2018 and 8 March 2018.

2. After the reporting period, the directors of the Company proposed a final dividend for the year ended 31 December 2017 of HK$2.5 cent per ordinary share, which has not been recognized as a liability at 31 December 2017.

PROSPECT

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

1. Further strengthening our leading position in the domestic medical devices market. We will take advantages of our brand recognition and sales distribution network in the 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. 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 a new generation of products, actively advance the clinic trial and approval of new products and thus diversify our product offering and provide a comprehensive portfolio of medical devices to physicians and patients.

3. Promoting reform of our management system. We will promote reform of our management system to integrate resources, streamline processes, and optimize our management structure so as to enhance the competitiveness and the 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 2017 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 Company 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 2017, the Company 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 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 of 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.

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

AUDIT COMMITTEE

The Audit Committee comprises three members:

Mr. Jonathan H. Chou *(Chairman)*
Mr. Norihiro Ashida
Mr. Chunyang Shao

The Company established an audit committee (the "Audit Committee") in March 2010 with written terms of reference in compliance with the CG Code. 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;
- 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 reporting period and as of the date of this announcement, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2017, 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 2017.

The Company has also established written guidelines on no less exacting 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 2017.

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

Save for the 10,535,000 shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$9,617,000 on the Stock Exchange for the year ended 31 December 2017, 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 2017.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Reference is made to the announcements of the Company dated 4 December 2016, 10 March 2017 and 26 May 2017. 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).

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 2.78% 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 7.03% 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 7.03% 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.

During the year ended 31 December 2017, the Previous Equity Transfer Agreements, the CICC Equity Transfer Agreement and the Fufu Equity Transfer Agreement were completed. As at 31 December 2017, the Group's effective equity interests in MP Endo was approximately 61.79% and MP Endo remains as a subsidiary of the Company.

(b) MicroPort Shanghai CardioFlow Medtech Co., Ltd. ("MP CardioFlow")

Reference is made to the announcements of the Company dated 22 August 2017, 4 September 2017, 22 October 2017, 27 October 2017 and 8 February 2018. As at 31 December 2016, the Group held approximately 77.27% equity interest in MP CardioFlow. During the year ended 31 December 2017, The Group and other original shareholders of MP CardioFlow entered into several share transfer and capital increase agreements and shareholders' agreements (collectively the "CardioFlow Agreements") with certain third party investors (the "CardioFlow Investors") regarding transfer of equity interest in and capital increase of MP CardioFlow. Each of the CardioFlow Investors is an independent third party not connected with the Group. The CardioFlow Investors were granted put options under the CardioFlow Agreements, which give the CardioFlow Investors the rights to require the Group to re-acquire the redeemable shares by them under certain conditions at the consideration specified under the CardioFlow Agreements.

On 22 August 2017, Shanghai MicroPort Medical (Group) Co., Ltd. ("MicroPort Shanghai"), Shanghai Chenxue Investment Management Center (Limited Partnership) ("Chenxue Investment"), Shanghai Jianyi Xinghe Investment Management Center (Limited Partnership) ("Jianyi Xinghe") (collectively, the "Original Shareholders") and MP CardioFlow entered into a share transfer and capital increase agreement and a shareholders' agreement with certain third party investors (the "Initial Investors") (the "Initial Investment"), pursuant to which, the Initial Investors agreed to subscribe for certain interest to be newly issued in the enlarged share capital of MP CardioFlow

upon the completion of the Initial Investment at an aggregate consideration of RMB248,381,153 and to purchase certain interest in MP CardioFlow held by Chenxue Investment and Jianyi Xinghe at an aggregate consideration of RMB181,618,847, respectively. The Initial Investment will be carried out through the following three steps: (i) step I, Chenxue Investment agreed to transfer certain equity interest in MP CardioFlow it holds to the Initial Investors, and the Initial Investors agreed to subscribe certain interest to be newly issued by MP CardioFlow; (ii) step II, Jianyi Xinghe agreed to transfer certain equity interest in MP CardioFlow it holds to the Initial Investors; (iii) step III, the Initial Investors agreed to subscribe certain interest to be newly issued by MP CardioFlow. The parties also agreed that the Original Shareholders and MP CardioFlow shall have the right to introduce additional investors to MP CardioFlow within 60 days upon the completion of step I of the Initial Investment.

On 20 October 2017, the Original Shareholders and MP CardioFlow entered into a share transfer and capital increase agreement with a third party investor (the "Subsequent Investor") (the "Subsequent Investment"), pursuant to which, the Subsequent Investor agreed to subscribe for 1.69% of the enlarged share capital of MP CardioFlow upon the completion of the Initial Investment and the Subsequent Investment at an aggregate consideration of RMB28,881,530 and to purchase 1.19% equity interest in MP CardioFlow held by Chenxue Investment and Jianyi Xinghe at an aggregate consideration of RMB21,118,470. The Subsequent Investment will carried out through three steps similar to the Initial Investment, namely (i) step I, Chenxue Investment agreed to transfer certain equity interest in MP CardioFlow it holds to the Subsequent Investor, and the Subsequent Investor agreed to subscribe certain interest to be newly issued by MP CardioFlow; (ii) step II, Jianyi Xinghe agreed to transfer certain equity interest in MP CardioFlow it holds to the Subsequent Investor; (iii) step III, the Subsequent Investor agreed to subscribe certain interest to be newly issued by MP CardioFlow. As the Subsequent Investor was introduced as an additional member of the Investors, the Original Shareholders, MP CardioFlow, the Initial Investors and the Subsequent Investor entered into a new shareholders' agreement on 20 October 2017.

On 8 February 2018, the Original Shareholders, MP CardioFlow, the Initial Investors and a third party investor ("CICC Kangrui") entered into the supplementary agreement to the share transfer and capital increase agreement dated 22 August 2017 (the "Supplementary Agreement"), pursuant to which, the parties agreed that one of the Initial Investors ("CICC Pucheng") will transfer all of its rights, interests and obligations under the share transfer and capital increase agreement dated 22 August 2017 to CICC Kangrui. As CICC Kangrui replaced CICC Pucheng as an Investor, the parties entered into a restated shareholders' agreement on 8 February 2018.

The issuance of new share capital by MP CardioFlow under step I and step III under the Initial Investment and the Subsequent Investment are deemed as partial disposal of equity interest in MP CardioFlow by the Group, while the transfers of equity interest by Chenxue Investment and Jianyi Xinhe to the CardioFlow Investors are not transactions of the Group. Upon the completion of the CardioFlow Agreements, the Group's effective interests in MP CardioFlow will be diluted to approximately 64.72%. MP CardioFlow will remain as a subsidiary of the Group.

As at 31 December 2017, only step I under the Initial Investment and the Subsequent Investment were completed. The Group held approximately 67.83% equity interests in MP CardioFlow.

Saving as disclosed above, during the year, there was no other material acquisition and 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 2017 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 (the "AGM") of the Company will be held on 14 May 2018. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK$2.5 cent (tax inclusive) per share (the "Share") for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on Wednesday, 23 May 2018 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 Wednesday, 15 August 2018. Dividend warrants and share certificates for new shares to be issued under the Scrip Dividend Scheme will be dispatched by ordinary mail on or about Wednesday, 15 August 2018. 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 2017. On the 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 dispatched to the shareholders on or about Friday, 13 July 2018.

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 9 May 2018 to 14 May 2018, 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 8 May 2018 (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 2017 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 Friday, 18 May 2018 to Wednesday, 23 May 2018, 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 Thursday, 17 May 2018 (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 2017 annual report of the Company will be dispatched 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, 27 March 2018

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.