MicroPort Scientific Corporation

微創醫療科學有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of MicroPort Scientific Corporation (stock code:00853) (the "Company" or "MicroPort") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2018 (the "Reporting Period"), which have been reviewed by the Company's audit committee (the "Audit Committee"). The financial highlights of the Group during the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended 30 June		
	2018	2017	Change
	US$'000	*US$'000*	
	(unaudited)	(unaudited)	%
Revenue	**309,867**	217,339	42.6%
Gross profit	**219,429**	158,344	38.6%
Profit for the period	**24,203**	20,614	17.4%
Profit attributable to equity shareholders	**23,769**	21,372	11.2%
Earnings per share			
Basic (in cents)	**1.64**	1.50	9.3%
Diluted (in cents)	**1.57**	1.46	7.5%

During the Reporting Period, the Group successfully achieved total revenue of US$309.9 million, representing a growth of 35.3% (excluding the foreign exchange impact) and a growth of 42.6% in US$ as compared to the corresponding period of 2017. The segments of cardiovascular devices, endovascular devices, electrophysiology devices, and neurovascular devices grew vigorously and recorded revenue increase of 21.1%, 51.4%, 46.2% and 33.6% respectively excluding the foreign exchange impact. Orthopedics devices segment maintained steady growing momentum and recorded 8.4% growth in revenue (excluding the foreign exchange impact). Following completion of the acquisition of the Cardiac Rhythm Management ("CRM") business from LivaNova PLC ("LivaNova"), the financial results of the CRM business have been consolidated into the financial statements of the Group since 30 April 2018. Revenue of US$43.8 million from the CRM segment was recorded for the period ended 30 June 2018.

The Group recorded a profit of US$24.2 million (profit attributable to equity shareholders: US$23.8 million) for the six months ended 30 June 2018, up of 17.4% as compared with the corresponding period of 2017. The increase is principally attributable to a significant revenue growth from the cardiovascular and endovascular segments in the PRC market, and foreign exchange gain from the strengthening of USD in connection with a CNY denominated borrowing.

I. UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 (unaudited)
(Expressed in United States dollars)

	Note	Six months ended 30 June	
		2018	2017 *(note)*
		US$'000	*US$'000*
Revenue	*3*	**309,867**	217,339
Cost of sales		**(90,438)**	(58,995)
Gross profit		**219,429**	158,344
Other revenue	*4*	**4,155**	1,920
Other net gain/(loss)	*4*	**119**	(4,442)
Research and development costs		**(41,791)**	(25,708)
Distribution costs		**(91,902)**	(63,707)
Administrative expenses		**(42,291)**	(31,264)
Other operating costs		**(7,942)**	(1,098)
Profit from operations		**39,777**	34,045
Finance costs	*5(a)*	**(8,708)**	(7,004)
Gain on disposal of subsidiaries		**–**	6,531
Gain on deemed disposal of a joint venture	*14*	**4,133**	–
Share of losses of associates		**(848)**	(3,279)
Share of losses of a joint venture		**(202)**	(2,532)
Profit before taxation	*5*	**34,152**	27,761
Income tax	*6*	**(9,949)**	(7,147)
Profit for the period		**24,203**	20,614
Attributable to:			
Equity shareholders of the Company		**23,769**	21,372
Non-controlling interests		**434**	(758)
Profit for the period		**24,203**	20,614
Earnings per share	*7*		
– Basic (in cents)		**1.64**	1.50
– Diluted (in cents)		**1.57**	1.46

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 (unaudited)
(Expressed in United States dollars)

	Six months ended 30 June	
	2018	2017
		(note)
	US$'000	*US$'000*
Profit for the period	**24,203**	20,614
Other comprehensive income for the period, net of tax		
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit liabilities	**128**	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**(14,043)**	14,459
Other comprehensive income for the period	**(13,915)**	14,459
Total comprehensive income for the period	**10,288**	35,073
Attributable to:		
Equity shareholders of the Company	**11,247**	35,499
Non-controlling interests	**(959)**	(426)
Total comprehensive income for the period	**10,288**	35,073

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 (unaudited)

(Expressed in United States dollars)

	Note	At 30 June 2018		At 31 December 2017 *(note)*	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current assets					
Investment properties			**5,740**		5,899
Other property, plant and equipment	*8*		**316,219**		282,280
Land use rights			**15,836**		16,224
			337,795		304,403
Intangible assets	*8*		**110,857**		83,904
Goodwill	*8*		**130,349**		54,458
Interest in associates			**12,747**		13,998
Interest in a joint venture			**–**		197
Available-for-sale securities			**–**		5,000
Other financial assets	*2(b)*		**5,206**		–
Deferred tax assets			**29,961**		5,584
Prepayments for non-current assets			**4,393**		2,491
Other non-current assets			**18,904**		3,883
			650,212		473,918
Current assets					
Inventories		**164,671**		106,160	
Trade and other receivables	*10*	**259,032**		162,242	
Pledged deposits and time deposits		**753**		760	
Cash and cash equivalents		**106,522**		160,229	
Derivative financial assets		**–**		314	
		530,978		429,705	
Current liabilities					
Trade and other payables	*11*	**200,849**		125,085	
Contract liabilities	*2(c)*	**3,096**		–	
Interest-bearing borrowings	*12*	**65,860**		68,819	
Convertible bonds		**100,343**		–	
Income tax payable		**11,071**		4,989	
		381,219		198,893	
Net current assets			**149,759**		230,812
Total assets less current liabilities			**799,971**		704,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 (unaudited)
(Expressed in United States dollars)

	Note	At 30 June 2018		At 31 December 2017 *(note)*	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current liabilities					
Interest-bearing borrowings	*12*	**138,391**		28,235	
Deferred income		**25,553**		24,291	
Convertible bonds		**56,482**		154,421	
Other payables	*11*	**71,694**		54,796	
Deferred tax liabilities		**14,661**		3,535	
Derivative financial liabilities	*14*	**2,039**		–	
			308,820		265,278
Net assets			**491,151**		439,452
Capital and reserves	*13*				
Share capital			**15**		14
Reserves			**408,576**		401,589
Total equity attributable to equity shareholders of the Company			**408,591**		401,603
Non-controlling interests			**82,560**		37,849
Total equity			**491,151**		439,452

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

II. NOTES

(Expressed in United States dollars unless otherwise indicated)

1. Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of MicroPort Scientific Corporation (the "Company") and its subsidiaries (together, the "Group") since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the audit committee of the Company and approved for issue on 30 August 2018. The interim financial report has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's annual consolidated financial statements for the year ended 31 December 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2018.

2. Changes in accounting policies

(a) Overview

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

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

HK (IFRIC) 22 does not have a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented in the interim financial report.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises the cumulative effects of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening statement of financial position at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and HKFRS 15:

	At 31 December 2017	Impact on initial application of HKFRS 9	Impact on initial application of HKFRS 15	At 1 January 2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Available-for-sale securities	5,000	(5,000)	–	–
Other financial assets	–	5,000	–	5,000
Non-current assets	**473,918**	**–**	**–**	**473,918**
Trade and other receivables	162,242	(4,321)	–	157,921
Total current assets	**429,705**	**(4,321)**	**–**	**425,384**
Trade and other payables	(125,085)	–	2,779	(122,306)
Contract liabilities	–	–	(2,779)	(2,779)
Total current liabilities	**(198,893)**	**–**	**–**	**(198,893)**
Net current assets	**230,812**	**(4,321)**	**–**	**226,491**
Total assets less current liabilities	**704,730**	**(4,321)**	**–**	**700,409**
Net assets	**439,452**	**(4,321)**	**–**	**435,131**
Reserve	(401,589)	4,163	–	(397,426)
Total equity attributable to equity shareholders of the Company	**(401,603)**	**4,163**	**–**	**(397,440)**
Non-controlling interests	(37,849)	158	–	(37,691)
Total equity	**(439,452)**	**4,321**	**–**	**(435,131)**

(b) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other revenue.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Reclassification**	**Remeasurement**	**HKFRS 9 carrying amount at 1 January 2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets carried at amortised cost				
Cash and cash equivalents	160,229	–	–	160,229
Pledged deposits and time deposits	760	–	–	760
Trade and other receivables	144,309	–	(4,321)	139,988
Debt component of convertible bonds issued by an associate *(note (i))*	5,365	(5,365)	–	–
Amounts due from associates	3,256	–	–	3,256
	313,919	(5,365)	(4,321)	304,233
Financial assets carried at FVPL				
Convertible bonds issued by an associate *(note (i))*	314	5,365	–	5,679
Equity securities not held for trading *(note (ii))*	–	5,000	–	5,000
	314	10,365	–	10,679
Financial assets classified as available-for-sale under HKAS 39 *(note (ii))*	5,000	(5,000)	–	–

Note

(i) Under HKAS 39, conversion option embedded in the convertible bonds issued by an associate was separated from the host and recognised as a derivative financial asset, of which fair value was remeasured at the end of each reporting period. The host contract is subsequently carried at amortised cost. Under HKFRS 9, such hybrid instrument as a whole is assessed for classification and is carried at FVPL.

(ii) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, none of the investments has been designated at FVOCI (non-recycling).

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any.

The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and amounts due from associates and a joint venture), contract assets as defined in HKFRS 15, and financial guarantee contracts issued.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increase in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 60 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to US$4,321,000, which decreased retained earnings by US$4,163,000 and non-controlling interests by US$158,000. The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	US$'000
Loss allowance at 31 December 2017 under HKAS 39	6,141
Additional credit loss recognised at 1 January 2018 on trade receivables	4,321
Loss allowance at 1 January 2018 under HKFRS 9	10,462

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and determines that there is no significant impact of transition to HKFRS 15 on retained earnings and related tax as at 1 January 2018. Therefore, no adjustment to the opening balance of equity at 1 January 2018 was made. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognised the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

"Advances received from customers" amounting to US$2,779,000, which were previously included in trade and other payables are now included under contract liabilities.

3. Revenue and segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of business and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified eight reportable segments (2017: seven). On 30 April 2018, the Group completed the acquisition of cardiac rhythm management business (the "CRM Business") from LivaNova PLC ("LivaNova") (note 14). The Group presented CRM devices business segment as a reportable segment since 2018 which previously was included in the cardiovascular devices business segment. The comparative information has also been re-presented to reflect such change. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and geographical location of customers is as follow:

	Six months ended 30 June	
		2017
	2018	*(Re-presented)*
	US$'000	*US$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregate by major products		
– Orthopedics devices	**122,134**	108,771
– Cardiovascular devices		
– Drug eluting stents	**101,458**	79,681
– Others	**5,219**	2,589
– Cardiac rhythm management devices	**43,752**	1,045
– Endovascular devices		
– TAA/AAA stent grafts	**16,057**	9,951
– Others	**3,819**	2,230
– Electrophysiology devices	**5,520**	3,526
– Neurovascular devices	**8,264**	5,747
– Surgical devices	**3,406**	2,862
– Diabetes and endocrinal devices	**–**	715
	309,629	217,117
Revenue from other sources		
– Gross rentals from investment properties	**238**	222
	309,867	217,339

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
Disaggregate by geographical location of external customers		
– the People's Republic of China (the "PRC") (country of domicile)	**145,382**	106,150
– North America	**55,251**	49,586
– Europe	**70,681**	30,340
– Asia (excluding the PRC)	**28,165**	22,020
– South America	**5,496**	6,400
– Others	**4,892**	2,843
	164,485	111,189
	309,867	217,339

The geographical analysis above includes property rental income from external customers in the PRC for the six months ended 30 June 2018 of US$238,000 (six months ended 30 June 2017: US$222,000). Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

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

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Six months ended 30 June 2018								
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	Cardiac rhythm management devices business *US$'000*	Endovascular devices business (note) *US$'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*
Disaggregated by timing of revenue recognition									
Point in time-sales of medical devices	122,134	106,677	43,752	19,876	5,520	8,264	3,406	–	309,629
Over time-rental income	–	171	–	–	–	67	–	–	238
	122,134	106,848	43,752	19,876	5,520	8,331	3,406	–	309,867
Reportable segment net (loss)/profit	(8,657)	42,063	(3,389)	3,746	146	2,242	(2,307)	(330)	33,514

	At 30 June 2018								
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	Cardiac rhythm management devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Reportable segment assets	406,855	456,254	302,005	43,807	19,317	23,010	22,418	5,069	1,278,735
Reportable segment liabilities	194,292	116,662	104,965	8,367	10,424	6,628	15,829	–	457,167

Note: Reportable segment net profit of endovascular devices business segment for the six months ended 30 June 2018 included a change in fair value of US$5,679,000 in relation to the Group's investment in convertible bonds issued by an associate of the Group (note 9).

	Six months ended 30 June 2017 (Re-presented)								
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	Cardiac rhythm management 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*
Disaggregated by timing of revenue recognition									
Point in time-sales of medical devices	108,771	82,270	1,045	12,181	3,526	5,747	2,862	715	217,117
Over time-rental income	–	159	–	–	–	63	–	–	222
Revenue from external customers	108,771	82,429	1,045	12,181	3,526	5,810	2,862	715	217,339
Reportable segment net (loss)/profit	(9,367)	38,961	(2,486)	3,227	(1,342)	822	(1,307)	(756)	27,752

	At 31 December 2017 (Re-presented)								
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	Cardiac rhythm management devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Reportable segment assets	407,087	435,375	760	40,087	19,692	20,662	28,731	8,633	961,027
Reportable segment liabilities	154,689	113,993	1,123	5,402	11,069	3,146	17,453	–	306,875

The measure used for reporting segment profit/(loss) is "reportable segment net profit/(loss)", which represents the profit/(loss) for the year/period attributable to each of the reportable segments. Items that are not specifically attributed to individual segments, such as unallocated exchange gain/(loss), unallocated corporate income and expenses, equity-settled share-based payment expenses and the PRC dividends withholding tax are excluded from reportable segment net profit/(loss).

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
Reportable segment net profit	**33,514**	27,752
Share awards scheme	**(2,636)**	(2,531)
Other equity-settled share-based payment expenses	**(2,060)**	(2,068)
Unallocated exchange gain/(loss)	**4,569**	(2,295)
Gain on disposal of subsidiaries	**–**	6,531
Gain on deemed disposal of a joint venture	**4,133**	–
Unallocated expenses, net	**(13,317)**	(6,775)
Consolidated profit for the period	**24,203**	20,614

4. Other revenue and net gain/(loss)

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
Other revenue		
Government grants	**2,804**	1,016
Interest income on bank deposits	**563**	367
Fee income from a security deposit	**275**	–
Others	**513**	537
	4,155	1,920
Other net gain/(loss)		
Net foreign exchange gain/(loss)	**3,621**	(4,779)
Changes in fair value of financial assets and liabilities carried at FVPL	**(5,776)**	(239)
Others	**2,274**	576
	119	(4,442)

5. Profit before taxation

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

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
(a) Finance costs		
Interest on the convertible bonds	**4,670**	4,830
Interest on other interest-bearing borrowings	**3,971**	1,737
Others	**302**	437
Total interest expenses on financial liabilities not at fair value through profit or loss	**8,943**	7,004
Less: Interest expense capitalised into properties under development *	**(235)**	–
	8,708	7,004

* During the six months ended 30 June 2018, the borrowing costs have been capitalised at a rate of 4.7% per annum.

	Six months ended 30 June	
	2018	2017
		(note)
	US$'000	*US$'000*
(b) Other items		
Amortisation of intangible assets	**3,578**	2,926
Depreciation	**16,788**	14,440
Research and development costs #	**41,791**	25,708
Provision of inventories write-down	**3,217**	188
Impairment losses		
– intangible assets	**1,884**	150
– trade and other receivables	**963**	751

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Research and development costs includes amortisation of intangible assets of US$1,867,000 (six months ended 30 June 2017: US$1,388,000) and depreciation of property, plant and equipment of US$ 2,061,000 (six months ended 30 June 2017: US$1,586,000), which are included in the total amortisation and depreciation charges as disclosed above.

6. Income tax

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
Current tax – the PRC corporate income tax ("CIT")	**10,683**	6,756
Current tax – other jurisdictions	**766**	744
	11,449	7,500
Deferred taxation	**(1,500)**	(353)
	9,949	7,147

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%.

Two subsidiaries of the Group obtained the certificates of ANTE in 2015 with an effective period of three years from 2015 to 2017. Subject to renewal, these subsidiaries' ANTE status will enable them to continue to enjoy the preferential income tax rate of 15% from 2018 to 2020. The Group assesses that these subsidiaries meet all the criteria for the renewal of ANTE. Therefore, income tax expense of these two subsidiaries for the six months ended 30 June 2018 was calculated based on an income tax rate of 15%.

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.

The Company's subsidiaries incorporated in France applied the French progressive taxation schemes, with first EUR500,000 income being taxed at 28% and the incremental increases in income taxed at higher tax rates at 33.33% and 31%, respectively for 2018 and 2019. From year 2020 to 2022, the applicable French tax rates will be the flat statutory tax rates of 28%, 26.5% and 25%, respectively.

The Company's subsidiaries incorporated in Italy are subject to an income tax rate of 24% and to a regional tax rate on the "net value of production" of 3.9%.

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

As at 30 June 2018, based on management's assessment of probability on the future taxable profit subsequent to the date of the reporting period, no deferred tax assets had been recognised for tax losses and deductible temporary differences of certain loss-making entities.

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$23,769,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: US$21,372,000) and the weighted average of 1,446,573,000 ordinary shares in issue during the six months ended 30 June 2018 (six months ended 30 June 2017: 1,428,078,000 ordinary shares).

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2018	2017
	Number of shares	Number of shares
	'000	*'000*
Issued ordinary shares at 1 January	**1,457,063**	1,439,481
Effect of share options exercised	**4,101**	1,096
Effect of shares under share award scheme	**(14,591)**	(12,499)
Weighted average number of ordinary shares at 30 June	**1,446,573**	1,428,078

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US$23,451,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: US$21,372,000) and the weighted average shares of 1,497,882,000 shares for the six months ended 30 June 2018 (six months ended 30 June 2017: 1,462,258,000 ordinary shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme and a put option that may be settled in ordinary shares of the Company or cash at the Company's option (note 14).

The calculation of diluted earnings per share amount for the six months ended 30 June 2018 has not included the potential effect of the deemed conversion of the convertible bonds issued by the Company into ordinary shares during the period, as it has an anti-dilutive effect on the basic earnings per share amount for the period.

8. Other property, plant and equipment, intangible assets and goodwill

On 30 April 2018, the Group had additions in property, plant and equipment, intangible assets and goodwill with provisional fair value of US$22,787,000, US$23,618,000 and US$75,891,000, respectively through the acquisition of the CRM Business from LivaNova (note 14). In addition to above, the Group acquired items of property and equipment with a cost of US$18,881,000 (six months ended 30 June 2017: US$7,054,000), incurred construction costs for buildings of US$12,134,000 (six months ended 30 June 2017: US$10,599,000) and capitalised development costs of US$9,732,000 (six months ended 30 June 2017: US$7,076,000) during the six months ended 30 June 2018.

9. Investment in Lombard Medical, Inc.

Reference is made to the announcement dated 19 December 2016 of the Company. The Group previously invested in Lombard Medical, Inc. ("Lombard"), a company listed on OTCQX (symbol: EVARF) by way of (i) the 8,064,516 ordinary shares of Lombard (the "Lombard Cayman Shares") at a consideration of US$5,000,000; and (ii) the convertible bonds in an aggregate principal amount of US$10,000,000, with a term of five years (the "Lombard Convertible Bonds"). In prior years, the Lombard Cayman Shares was accounted for as an investment in an associate. The conversion option embedded in the Lombard Convertible Bonds was considered as a derivative financial asset which was separated from the host contract under HKAS 39. The excess of payments to acquire the Lombard Convertible Bonds over the amount initially recognised as the derivative component was recognised as the debt component and classified as interest in associates.

In 2017, the Group's share of losses of Lombard exceeded the Group's investment in the Lombard Cayman Shares. A loss of US$5,000,000 was recognised in profit or loss during 2017, which reduced the carrying amount of the Lombard Cayman Shares to zero. In addition, the Group considered that there was objective evidence of impairment on the Lombard Convertible Bonds and reassessed the recoverable amount of the Lombard Convertible Bonds as at 31 December 2017. An impairment loss of US$1,604,000 and the decrease in fair value of the conversion option embedded in the Lombard Convertible Bonds of US$3,185,000 were also charged to profit or loss directly in 2017. As a result of the adoption of HKFRS 9 as disclosed in note 2(b)(i) above, the Lombard Convertible Bonds, including the debt component and derivative component, were both classified as financial assets carried at FVPL.

During the six months ended 30 June 2018, Lombard commenced an official liquidation proceeding under the laws of the Cayman Islands and implemented a restructuring. As a result, the Group determined that the fair value of the Lombard Convertible Bonds would be inconsequential and reduced its fair value to zero with a change in fair value of US$5,679,000 recognised in profit or loss for the six months ended 30 June 2018. In addition, pursuant to the restructuring plan, Lombard transferred its operation business in United Kingdom and Germany to Endovascular Technology Corp. ("ETC"). As at 30 June, 2018, the Group had invested US$2,000,000 in ETC and owned approximately 12% equity interest in ETC.

10. Trade and other receivables

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

	At 30 June 2018	At 31 December 2017
	US$'000	*US$'000*
Within 1 month	**88,431**	42,899
1 to 3 months	**60,361**	52,694
3 to 12 months	**31,324**	23,167
More than 12 months	**7,150**	2,379
	187,266	121,139
Amounts due from a joint venture	**–**	6,897
Amounts due from the holders of non-controlling interests in relation to the capital contributions	**5,015**	9,642
Other debtors	**27,132**	12,849
Income tax recoverable	**19,315**	–
Deposits and prepayments	**20,304**	11,715
	259,032	162,242

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

11 Trade and other payables

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

	At 30 June 2018	At 31 December 2017
	US$'000	*US$'000*
Current		
Within 1 month	**42,371**	21,881
1 to 3 months	**17,379**	10,714
Over 3 months but within 6 months	**2,264**	479
Over 6 months but within 1 year	**2,150**	273
Over 1 year	**18,739**	18,804
Trade payables	**82,903**	52,151
Advances received from customers *(note 2(c))*	**–**	2,779
Dividends payables to ordinary shareholders	**4,746**	89
Dividends to holders of non-controlling interests	**1,374**	–
Other payables and accrued charges	**111,826**	70,066
	200,849	125,085
Non-current		
Share repurchase obligation *(note)*	**53,949**	52,275
Provision for employee severance indemnities and other employee benefit provisions	**9,118**	–
Other payables	**8,627**	2,521
	71,694	54,796

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

Note: In 2017, the Group wrote put options (the "CardioFlow Put Options") to certain third party investors, being the holders of non-controlling interests of Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow", a subsidiary of the Group), in connection with the deemed disposal of partial equity interests in MP CardioFlow. The CardioFlow Put Options give the investors the rights to require the Group to re-acquire the redeemable shares held by them under certain conditions which are not under the control of the Group, at the consideration specified under the agreements.

The Group recorded the present value of the redemption price of the CardioFlow Put Options as a payable with the corresponding value decrease in capital reserve. The CardioFlow Put Options are stated at amortised cost. During the six months ended 30 June 2018, the change in amortised cost of such share repurchase obligations of US$2,409,000 has been recognised directly in equity.

12 Interest-bearing borrowings

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

	At 30 June 2018	At 31 December 2017
	US$'000	*US$'000*
Within 1 year or on demand	**65,860**	68,819
After 1 year but within 2 years	**9,266**	25,827
After 2 years but within 5 years	**129,125**	2,408
	138,391	28,235
	204,251	97,054

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

	At 30 June 2018	At 31 December 2017
	US$'000	*US$'000*
Bank loans		
– secured	**104,021**	46,871
– unsecured	**100,050**	50,000
	204,071	96,871
Secured other borrowings	**180**	183
	204,251	97,054

At 30 June 2018, the bank facilities drawn down by the Group of US$15,236,000 (31 December 2017: US$46,871,000) were secured by land use rights and buildings held for own use with net book value of US$4,377,000 and US$45,427,000, respectively (31 December 2017: US$8,725,000 and US$110,750,000, respectively).

At 30 June 2018, a bank loan of the Company amounting to US$88,785,000 in connection with the acquisition of the CRM Business was secured by the equity interests of the Company's four subsidiaries, namely Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai"), MicroPort International Corp. Limited, MicroPort International Corp. and MicroPort Cardiac Rhythm B.V. and guaranteed by MP Shanghai. The bank loan bears an interest rate of LIBOR plus 3.5% per annum and shall be repaid by instalments within five years since 30 April 2018.

13 Capital, reserves and dividends

(a) Dividends

At the meeting of the board of directors of the Company held on 27 March 2018, the board of directors recommended the payment of a final dividend of HK2.5 cents per ordinary share of the Company for the year ended 31 December 2017 (the "2017 Final Dividend") by way of cash, with an option to elect receiving new fully

paid shares of the Company in lieu of cash. The 2017 Final Dividend was approved at the annual general meeting of the Company held on 14 May 2018 and is payable to shareholders of the Company whose names appeared on the register of members of the Company on 23 May 2018. Accordingly, a liability of US$4,657,000 has been recognised as at 30 June 2018.

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

(b) Share option plans (equity-settled)

Apart from the share options in issue carried forward from 2017, 2,451,474 share options of the Company were granted to senior management and employees of the Group under the Company's employee share option scheme during the six months ended 30 June 2018 (six months ended 30 June 2017: 26,617,472). The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of option is US$1.00. Each option entitles the holder to subscribe for one ordinary share in the Company. These share options will vest on 29 March 2023 with an exercise price of HK$8.51.

During the six months ended 30 June 2018, 5,050,000 share options of the Company were exercised (six months ended 30 June 2017: 4,910,190) with a weighted average exercise price of HK$3.30 (equivalent to approximately US$0.42) (six months ended 30 June 2017: HK$2.80 (equivalent to approximately US$0.36)) and the total number of ordinary shares of the Company increased by 5,050,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: 4,910,190 ordinary shares).

In 2017, Shanghai MicroPort EP MedTech Co., Ltd. ("MP EP"), a subsidiary of the Company, adopted a share option scheme (the "EP Option Scheme") and granted 2,100,000 share options of MP EP. Each option under the EP Option Scheme entitles the holder to subscribe for one ordinary share in MP EP. During the six months ended 30 June 2018, additional 700,000 share options of MP EP were granted to the management and employees of MP EP with an exercise price of RMB5.93. No share option under the EP Option Scheme was exercised during the six months ended 30 June 2018.

(c) Share award scheme (equity-settled)

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. For the six months ended 30 June 2018, the Company granted 5,031,015 shares (six months ended 30 June 2017: 6,682,414) to the Group's executives and purchased 802,000 shares (six months ended 30 June 2017: 5,432,000) at cash consideration of US$795,000 (six months ended 30 June 2017: US$3,880,000).

(d) Employee share purchase plan ("ESPP") (equity-settled)

Since 2014, the Group adopted several ESPPs, pursuant to which, the Group agreed to transfer partial equity interests in its subsidiaries to the partnership firms, whose limited partners consisted of employees of the Group. All participants of above ESPPs have purchased equity interests in respective partnership firms at amounts specified in the respective partnership agreements. The ESPPs all contain a service condition. Employees participating in the plan have to transfer out their equity interests if their employments with the Group or the Group's associates were terminated within the vesting period, to a person or a party nominated by the general partners of the partnership firms at a price no higher than the amounts specified in the respective partnership agreements.

During the six months ended 30 June 2018, partnership firms subscribed for newly issued share capital of Shanghai Yuanxin Medtech Co., Ltd. ("Yuanxin") and Shanghai MicroPort Jiehao New Material Co., Ltd. ("Jiehao") and held 60% and 65% equity interests in Yuanxin and Jiehao, respectively. No expenses were recognised for the six months ended 30 June 2018 in relation to the foresaid ESPPs as the transfer considerations approximated to the fair value of the equity interests transferred.

14 Acquisition of subsidiaries

Reference is made to the announcement dated 8 March 2018 of the Company. On 8 March 2018, the Company, MicroPort Cardiac Rhythm B.V. (the "Purchaser", a subsidiary of the Company incorporated in the Netherlands) and LivaNova entered into a stock and asset purchase agreement (the "Stock and Asset Purchase Agreement"), pursuant to which, the Purchaser conditionally agreed to acquire, and LivaNova conditionally agreed to sell, the CRM Business (the "CRM Acquisition") for an initial consideration of US$190 million, subject to working capital and other customary adjustments (collectively referred to the "Adjustment Amount"). The CRM Business primarily operates in various countries in Europe, as well as in US, Canada and parts of Asia. The Group believes the CRM Acquisition is in line with the development strategies of the Group and will bring long-term and strategic benefits to the Company.

On 30 April 2018, the Company, the Purchaser and LivaNova entered into a side letter to the Stock and Asset Purchase Agreement (the "Side Letter"). Pursuant to the Side Letter, the closing of the CRM Acquisition for certain countries specified in the Side Letter (the "Initial Closing Countries") was completed on 30 April 2018 (the "Initial Closing"), while for certain other countries specified in the Side Letter (the "Deferred Closing Countries"), closing shall take place through one or more deferred closings (the "Deferred Closings") not more than six months after the date of the Initial Closing. From the date of the Initial Closing until the applicable Deferred Closings, LivaNova shall conduct the business in the applicable Deferred Closing Countries at the direction of the Group and the CRM Business in Deferred Closing Countries shall be held for the Group's benefit and account. Pursuant to the Stock and Asset Purchase Agreement together with the Side Letter, the board of directors of the Company determined that the Group completed the CRM Acquisition on 30 April 2018 and has controlled the CRM Business since then.

In April 2018, the Group paid US$195,800,000 in cash to LivaNova, based on an estimated Adjustment Amount of the purchase price consideration provided by LivaNova. As at the date of this interim report, the Group and LivaNova are in the process of agreeing the computation of the Adjustment Amount, pursuant to the Stock and Asset Purchase Agreement.

Acquisition-related costs amounted to approximately US$7,495,000, of which US$4,979,000 and US$2,516,000 were recognised in other operating costs in the consolidated statement of profit or loss for the six months period ended 30 June 2018 and the year ended 31 December 2017, respectively.

The CRM Acquisition was financed by way of (i) a new bank loan of US$88,785,000 (note 12); and (ii) the contribution totalling US$50,000,000 to the Purchaser by Sino Rhythm Limited ("SRL"), a third party investor.

Pursuant to the contribution and shareholder agreement entered into between the Purchaser, SRL and MicroPort International Corp. Limited ("MP HK", a subsidiary of the Company), in February 2018, SRL contributed capital of US$50,000,000 to the Purchaser for the CRM Acquisition and therefore held 25% equity interests in the Purchaser. In addition, in the event that an initial public offering or a trade sale of the CRM Business has not occurred on or prior to the fifth anniversary of the closing of the CRM Acquisition, SRL has the right to require the Company to purchase any or all of the equity interests in the Purchaser held by SRL at a price equal to the original investment plus an annual internal return of 8% (the "SRL Put Option"). Upon receipt of SRL's notice of exercising the SRL Put Option, the Company shall have the right to decide whether to pay its consideration in cash or by issuing to SRL new shares of the Company or with a combination of cash and shares of the Company. The SRL Put Option is considered to be a derivative financial liability which was measured at a fair value of US$1,942,000 on initial recognition. As at 30 June 2018, the fair value of the SRL Put Option was US$2,039,000. Accordingly, the change in fair value of US$97,000 was charged to the consolidated profit or loss during the six months ended 30 June 2018.

Details of the provisional fair value of net identified assets acquired are as follows:

	Provision fair value of net identifiable assets acquired at the acquisition date *US$'000*
Cash and cash equivalents	11,775
Property, plant and equipment	22,787
Intangible assets	23,618
Trade and other receivables	86,240
Inventories	65,909
Other non-current assets	449
Deferred tax assets	24,091
Interest-bearing borrowings	(10,369)
Trade and other payables	(66,073)
Income tax payables	(4,765)
Other non-current liabilities	(16,964)
Deferred tax liabilities	(12,656)
Net identifiable assets	124,042
Goodwill	75,891
Fair value of considerations	199,933
Considerations including:	
Fair value of the existing equity interests in a joint venture *(Note)*	4,133
Cash considerations paid in 2018	195,800
	199,933
Net cash outflow arising from the acquisition in 2018	(184,025)

Note: MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM") was previously jointly controlled by the Group and LivaNova. After the completion of the CRM Acquisition, MicroPort Sorin CRM became a subsidiary of the Company with its assets and liabilities consolidated into the Company's consolidated financial statements. Accordingly, the acquisition-date fair value of the existing equity interests in MicroPort Sorin CRM owned by the Group forms part of the consideration in determining the amount of goodwill. A gain on deemed disposal of interests in a joint venture of US$4,133,000 was recognised in the consolidated profit or loss for the six months ended 30 June 2018, which was determined as the excess of the fair value of the existing equity interests in MicroPort Sorin CRM of US$4,133,000, over the nil carrying value of investment in the joint venture.

The fair values are determined provisionally based on information available up to the date of this report. The directors are in the process of finalising the valuation of the net identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

III. MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Overview

Overview

In the first half of 2018, the global medical device industry continued to grow steadily. With an accelerating trend of population aging and diseases caused by modern lifestyle, there was growing market demand for innovative medical devices. 2018 is a crucial year for China for the implementation of the 13th Five-Year Plan; during the first half of the year, we have seen reconstructure of relevant organizations under the medical and health system, which marks the completion of the strategic framework at the top level of China's intensifying pharmaceutical reform. The State Medical Securities Administration, integrating the functions of medical insurance, product pricing and tendering, will take up the role for the administration and regulation of the pharmaceutical industry. In order to further reduce the financial burden of patients, protect people's lives and health, and enhance their quality of life, the government issued various policies to assure the continued development of the medical device industry in China. The main tasks include promoting the establishment of the hierarchical diagnosis and treatment system in the form of integrated medical system; establishing smart hospitals with the use of "Internet +" technology to better utilize China's health resources; continuously enhancing medical service capabilities and creating new markets for the medical device industry. With the high-end medical devices being taken as a key industry under the 13th Five-Year Plan, as well as the government's encouragement and support to the innovative enterprises in the industry, all these will facilitate the creation of new, cost-effective products with great quality by the leading enterprises in the industry. "The Guiding Principles on the Design of Medical Devices' Clinical Trials" (《醫療器械臨床試驗設計指導原則》) recognize the effectiveness of foreign clinical trial data when it comes to product registration in China; this will encourage backbone enterprises with international vision and operation experience to introduce new technologies to China. The increasingly tightened regulatory policies over product quality, distribution and tendering process will accelerate the elimination of backward production capacity in the industry, which will be beneficial for enterprises with strong economies of scale, products of premium quality and global strategic layouts and will form a new competitive landscape.

During the Reporting Period, the Group implemented the operational principles and goals in each business segment, so as to carry out key, diversified and globalized strategies. On 30 April 2018, the Group completed acquisition of the CRM business from LivaNova, the newly acquired business not only contributes to the Group's revenue, but also helps the Group enhance competitiveness and attain sustainable development in the long run. For the six months ended 30 June 2018, the Group recorded revenue of US$309.9 million, representing a growth of 35.3% as compared to the corresponding period in 2017 (excluding the foreign exchange impact); the Company also recorded a net profit of US$24.2 million (profit attributable to equity shareholders: US$23.8 million).

Segment Review

– ***Orthopedics Devices Business Maintained Steady Growth***

In the first half of 2018, based on the Group's unique concept of "Full Function, Faster™" in the orthopedics devices business, the product quality saw wider acceptance by doctors and patients, coupled with the continuous optimization of product mix and sales strategies, the orthopedics devices business maintained fast growing momentum. During the Reporting Period, the Group's orthopedics devices business recorded a revenue of US$122.1 million, representing a growth of 8.4% as compared to the corresponding period of last year (excluding the foreign exchange impact).

During the Reporting Period, the international (non-China) orthopedics business recorded a revenue of US$114.1 million, representing a growth of 6.5% as compared to the corresponding period in 2017 (excluding the foreign exchange impact), maintaining a growth rate above the market average. Sales performance in various countries or regions of the world had excellent performance, of which, business in North America achieved a growth of 8.9% (excluding the foreign exchange impact) in revenue as compared to the corresponding period of last year; business in Japan realized a growth of 5.1% (excluding the foreign exchange impact) in revenue as compared to the corresponding period of last year. The steady growth is driven by following factors: firstly, with the striving efforts of the Group's sales team, the sales coverage of the Group's international (non-China) orthopedics business expanded on a global scale; secondly, the Group continuously paid attention to medical education and training, including holding a number of roadshows during the Reporting Period and actively participating in industry conferences, so as to enhance the Group's brand recognition; last but not least, through the adjustment of sales strategy, the Group placed more resources and introduced more products catering for specific patients to countries and regions with higher profit margin. Due to the fast growing revenue, as well as great execution of the Group's defined turn-over plan, net loss of the Group's international (non-China) business was further narrowed by US$2.3 million, comparing to the same period of last year. As for clinical research, the Group's Medial-Pivot Total Knee Replacement System ("Medial-Pivot Knee") are gaining more recognition in academia for its excellent product design and quality; its 17-year follow-up results demonstrate excellent clinical outcomes for both survivorship (98.8%) and patient satisfaction (95%).

According to the comparative study authored by third party which published on The Journal of Arthroplasty, patients who underwent the Medial-Pivot total knee arthroplasty scored significantly better on the "Forgotten Joint Score" than those who underwent the posterior-stabilized total knee arthroplasty in terms of deep knee flexion and stability of the prosthesis.

During the Reporting Period, the Group's China orthopedics business recorded a revenue of US$8.0 million, representing a growth of 45.8% as compared to the corresponding period in 2017 (excluding the foreign exchange impact), which was driven by the rapid sales growth of joint business. The stable sales coverage expansion of the Group's China orthopedics business led to a steady increase in clinical implant volume in related products, among which, the implant volume of the Group's unique Medial-Pivot Knee increased notably. In the first half of 2018, through medical training activities such as overseas roadshows and workshops as well as the innovative online and offline media campaigns, the promotion of the MicroPort™ Orthopedics branding received positive feedback. During the Reporting Period, the Group's joint business developed over 200 new hospitals, of which, hip products developed 122 new hospitals, and knee products developed 80 new hospitals. At the same time, the quality of the joint business hospitals coverage continued to improve, with the average number of surgical procedures in each covered hospital increased. During the Reporting Period, spine and trauma business continued to increase its investment for innovation in spine products and academic promotion activities. As the technology intensiveness and competitive segmentation of spine products are greater than those of trauma products, the increasing sales contribution of spine products is favorable to the increase of the revenue and improvement of gross profit margin of the Group's China orthopedics business. With the significant breakthroughs made in the development of domestically made instruments by summarizing the characteristics of the existing knee instruments on the market based on tremendous amount of follow-up data on knee instrument users from the Group's international (non-China) orthopedics business, the Group's China orthopedics business independently developed the instrument kit for ADVANCE™ total knee replacement system specifically for China market. The instrument kit optimized 80% of the design of imported instruments, which significantly reduced the costs as well as the quantity of instruments, remarkably saved related instrument expenses and increased the turnover rate of orthopedics instruments. With an aim to reduce the operational cost in orthopedics business, the Group's Global Supply Center (the "GSC") continuously keeps playing an important role in the provision of centralized procurement, supply and logistic distribution services of surgical instruments and consumables for orthopedics business.

– ***CRM Business Opens A New Chapter***

The Group's CRM business principally develops, manufactures and markets products including defibrillators, cardiac resynchronization therapy devices and pacemakers for the diagnosis, treatment and management of heart rhythm disorders and heart failure. The Group completed the acquisition of CRM business from LivaNova on 30 April 2018. It is not only an overarching measure for the globalization strategy of the Group, but also a solid guarantee for the products' domestic production and the replacement of foreign products in China.

The Group's international (non-China) CRM business has a history of over 40 years in clinical application, with implantations over one million globally. Among the products, Kora™ series are the world's smallest full-body Magnetic Resonance Imaging ("MRI") conditional pacemakers, which make MRI scans no longer off-limits for pacemaker patients with the world's first pacemaker technology capable of detecting an MRI field and automatically switching to asynchronous mode. Platinium™ Implantable Cardioverter Defibrillator ("ICD") has the world's longest projected longevity of 14.3 years, giving the patients more durable and reliable safeguard. Platinium™ Cardiac Resynchronization Therapy Defibrillator ("CRT-D") features the world's only SonR™ contractility sensor for optimization of automatic Cardiac Resynchronization Therapy ("CRT"), improving heart failure symptoms. Ceaselessly pursuing innovation, the international (non-China) CRM business continues to provide the world the best, yet affordable therapeutic solutions which save and improve patients' lives. In the first half of 2018, PLATINIUM™ 4LV SonR™ CRT-D obtained approval from the Japanese Pharmaceuticals and Medical Devices Agency. SonR™ is the world's first and only sensor-based therapeutic optimization for CRT. The acquisition of CRM business was completed on 30 April 2018, during the Reporting Period, the international (non-China) CRM business only recorded revenue for the period from 30 April 2018 to 30 June 2018, achieved reported revenue of US$42.8 million.

MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MSC") manages the R&D, production and marketing of the Company's CRM business in China. Benefiting from the launch of domestic pacemakers, the CRM business in China performed outstandingly during the Reporting Period, the great sales performance was mainly attributable to the continuing expansion of the Group's sales coverage with both imported and domestic products. The first batch of the domestically-made Rega™ Family Implantable Pacemakers ("Rega™ Pacemaker") were implanted in March 2018. The Rega™ Pacemakers, with world-class quality and affordable price, gained wide recognition of the government, industry and media due to its small size, longevity, physiological ability and automatability. From March 2018 to the end of June 2018, 45 hospitals – including some leading hospitals in CRM industry – performed implantation of Rega™ Pacemakers. With its strong product portfolio and innovativeness, resources of international (non-China) CRM business can be leveraged to enhance the operational efficiency of the Group's China CRM business. In future, R&D cooperation between the international (non-China) and the Group's China CRM business will bring synergy to the Company; more international cutting edge technologies will be introduced to China, and patients there will enjoy the benefit of more affordable products with premium quality.

– ***Continued Rapid Growth of the Cardiovascular Devices Business***

In the first half of 2018, the Group's cardiovascular devices business maintained a strong growing momentum. It recorded revenue of US$106.8 million, representing growth of 21.1% as compared to the corresponding period in 2017 (excluding the foreign exchange impact). The growth was mainly driven by the exceptional clinical and sales performance, coupled with further market expansion of the Group's world's first and only Firehawk™ Coronary Rapamycin Target Eluting Stent ("Firehawk™"), and the high value Firebird™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™"). During the Reporting Period, revenue from

the Group's drug eluting stents' domestic business achieved a year-on-year growth of 22.1% (excluding the foreign exchange impact). Among them, Firehawk™ delivered a year-on-year revenue growth of 37.9% (excluding the foreign exchange impact), and Firebird2™ realized a year-on-year revenue growth of 16.3% (excluding the foreign exchange impact). At the same time, our balloon products business continued to grow rapidly, experiencing a year-on-year sales growth of 69.6% (excluding the foreign exchange impact). The Group's cardiovascular devices business has further expanded hospital coverage in China. As of 30 June 2018, the Group's drug eluting stents were used in more than 1,550 hospitals across the country. In July 2018, six new Firehawk™ models were approved by the State Drug Administration of China. This not only improves the competitiveness of Firehawk™, but also provides patients and doctors with more options, which will further consolidate the Group's leading position in the cardiovascular devices market in China.

During the Reporting Period, notable progress was made in the Group's international (non-China) cardiovascular business. In May 2018, the Group announced primary endpoint data at 12 months and Quantitative Coronary Angiography data at 13 months of the latest clinical trial of Firehawk™, TARGET All-Comer ("TARGET AC") in EuroPCR for the first time. Firehawk™ achieves primary endpoint and shows very promising results from TARGET AC clinical trial, The results of the TARGET AC trial demonstrated that vessels treated with the Firehawk™ showed non-inferiority results when compared to vessels treated with the control group. The TARGET AC trial is a prospective, multi-center, randomized controlled clinical trial consisting of entirely European based patients. This clinical study enrolled its first patient in December 2015 and completed enrollment of its last patient in October 2016. In total, there were 1,654 patients enrolled from 21 clinical study sites throughout Europe including countries such as the United Kingdom, France, Spain, Italy, Belgium, the Netherlands, Poland, Germany, Austria and Denmark.

– ***Significant Growth of the Endovascular Business***

During the Reporting Period, the Group's endovascular business experienced significant growth, recording a revenue of US$19.9 million, representing a growth of 51.4% (excluding the foreign exchange impact) as compared with the same period of last year, a growth rate far above the average rate in China market. Its strong performance was mainly attributable to the Group's products' excellent clinical and sales performance, as well as new products with high added value included in the product mix. During the Reporting Period, compared to the same period of 2017, revenue of the Group's thoracic aortic aneurysm products grew 56.8% (excluding the foreign exchange impact), and revenue of the Group's abdominal aortic aneurysm products grew 32.3% (excluding the foreign exchange impact), revenue of the Group's surgical stent graft products grew 24.4% (excluding the foreign exchange impact). In terms of market expansion, the Group has developed 55 new hospitals in China market. The Group's in-house developed Castor™ Thoracic Branch Stent-Graft System ("Castor™") is the world's first thoracic branch stent-graft system, and its first implant was performed in September 2017. As of 30 June 2018, Castor™ has covered 100 hospitals in China. Sales contribution of new products, as well as refinements to product manufacturing and business operations have resulted in an increased gross profit margin for the Group's endovascular business. In addition to China business's rapid

development, the exploration of overseas business also made exceptional progress. In January 2018, three of the Group's in-house developed products – Hercules™-T Low Profile Stent-Graft, Hercules™ Bifurcated Stent-Graft System and Delivery System, and Hercules™ Balloon Dilation Catheter – obtained approvals for registration from Colombia's health authority INVIMA. It was the first time the Group's endovascular products have gained approval for registration in that country. The above three products had already received approvals for registration in Brazil, Argentina, Peru, Thailand, Indonesia and the Philippines.

– ***Significant Milestones in Other Businesses***

During the Reporting Period, the Group's neurovascular device business achieved a year-on-year revenue growth of 33.6% (excluding the foreign exchange impact), mainly driven by a continuing sales coverage expansion of products and an even more comprehensive neurovascular product mix. In the first half of 2018, APOLLO™ Intracranial Stent System ("APOLLO™"), which is used for the treatment of intracranial stenosis, developed 116 new hospitals in China, and achieved a revenue growth of 30.7% (excluding the foreign exchange impact) as compared with the same period of last year. The WILLIS™ Intracranial Stent Graft System ("WILLIS™") is a first-of-its-kind product in China indicated for the treatment of intracranial aneurysms and the reconstruction of intracranial aneurysm. WILLIS™ developed 55 new hospitals in China in the first half of 2018, represented a revenue growth of 10.7% (excluding the foreign exchange impact) as compared with the same period of last year. In March 2018, the Group's in-house developed Tubridge™ Vascular Reconstruction Device ("Tubridge™") received registration approval from former China Food and Drug Administration ("CFDA"), becoming the first flow diverting stent approved in China, Tubridge™ started to contribute revenue since second quarter of 2018. Meanwhile, Vertebral Artery Rapamycin Target Eluting Stent has passed CFDA's review and entered the special review procedure for innovative medical devices ("Green Path"), it is the world's first drug-eluting stent indicated for the treatment of vertebral artery stenosis.

As the only domestic provider with a total solution of 3D and magnetic orientation ablation treatment for cardiac arrhythmia, the Group's EP devices business achieved a substantial growth of 46.2% (excluding the foreign exchange impact) in revenue compared to the corresponding period of last year. The year on year revenue growth of 42.2% (excluding the foreign exchange impact) in its China business was mainly driven by the products' stable clinical performance and the continuing expansion of sales coverage. During the Reporting Period, the Group developed 61 new 3D EP clinical centers in China, which led to a steady growth in 3D product sales. The revenue of international business recorded significant growth of 73.7% (excluding the foreign exchange impact) as compared with the same period of last year, mainly attributable to substantial revenue growth in covered countries and regions such as Greece, Turkey and Spain. At the beginning of 2018, the Group successfully developed Ecuador as a new international market. During the Reporting Period, the in-house developed, second generation Columbus™ 3D EP Navigation System ("Columbus™") and EasyFinder™ Deflectable Mapping Catheter 3D ("EasyFinder™") obtained CFDA approval, which complement the Group's comprehensive product pipeline, and meet the needs of more patients and doctors. In June 2018, the publication of the Health Economic Evaluation Report on Columbus™ and Its Matching Catheters became the Group's third health economic evaluation report after Firehawk™ and WILLIS™.

– ***Major Progress in Research and Development***

As of 30 June 2018, five of the Group's products had gained CFDA registration approval, with one product granted Green Path, and various other projects attaining milestone achievements.

In March 2018, the Group announced two-year follow-up results of the First-In-Man study (the FUTURE-I) of the Group's in-house developed Firesorb™ Bioresorbable Sirolimus Target Eluting Coronary Scaffold System ("Firesorb™"). According to the results, the occurrence of the main endpoint in two years is zero, the occurrence of patient-oriented composite endpoint – including death, myocardial infarction, and revascularization – is 2.2%, and the occurrence of all-cause mortality, target vessel MI and stent thrombosis are all zero. These outcomes further demonstrated the feasibility, preliminary safety and efficacy of Firesorb™ in treating patients with single-vessel coronary diseases.

In April 2018, the Group announced one-year follow-up study results for the Group's in-house developed VitaFlow™ Transcatheter Aortic Valve and its Delivery System ("VitaFlow™"). The study was a prospective, multi-center single-arm trial with 110 aged patients suffering from severe calcified aortic stenosis who are either high-risk or can't undergo open surgery. The data demonstrated the occurrence of all-cause mortality is as low as 2.7%, and there is no major stroke. All of the patients reported good hemodynamic function, no moderate or severe paravalvular leakage. The one-year clinical data of VitaFlow™ demonstrated that VitaFlow™ is safe and effective in treating severe calcified aortic stenosis.

During the Reporting Period, R&D for surgical robotics made stable progress. With increasingly frequent technological breakthroughs, the R&D achievements of this business segment gradually comes out.

2. Financial Review

Overview

Faced with an increasingly fierce competition in the rapidly growing medical device industry in China and abroad, the Group have successfully achieved a revenue growth of 42.6% in US$ for the six months ended 30 June 2018 and maintained its leading position in China. The Group firmly continued to provide a diversified product portfolio and pursue the Group's globalization strategy with non-China sales contributing 53.0% of the total revenue. The Group aims to continuously bring its innovations, technologies and services to millions of global patients and become a patient oriented global enterprise capable of leading minimally invasive and other emerging medical technologies.

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

Revenue

US$'000	Six months ended		Percent change	
	30 June 2018	30 June 2017	**in US$**	**in local currency**
Orthopedics devices business	**122,134**	108,771	12.3%	8.4%
– US	50,985	46,824	8.9%	8.9%
– EMEA	32,984	29,570	11.5%	1.8%
– Japan	17,401	15,904	9.4%	5.1%
– PRC	8,007	5,134	56.0%	45.8%
– Others	12,757	11,339	12.5%	11.7%
Cardiovascular devices business	**106,848**	82,422	29.6%	21.1%
Cardiac Rhythm Management business *(*Note 1)*	**43,752**	1,052	4,058.0%	3,794.0%
Endovascular devices business	**19,876**	12,181	63.2%	51.4%
Neurovascular devices business	**8,331**	5,810	43.4%	33.6%
Electrophysiology devices business	**5,520**	3,526	56.6%	46.2%
Surgical devices business	**3,406**	2,862	19.0%	11.3%
Diabetes devices business *(*Note 2)*	**–**	715	(100.0%)	(100.0%)
Total	**309,867**	217,339	42.6%	35.3%

**Note:*

1. The acquisition of the CRM business from LivaNova was completed on 30 April 2018. The financial results of the CRM business have been consolidated into the financial statement of the Group thereafter. As a result the revenue of this segment disclosed herein for the period ended 30 June 2018 includes the acquired business for the period from 30 April 2018 to 30 June 2018 and the previous pacemaker business for the six months period ended 30 June 2018.

   The revenue of cardiovascular devices business and CRM business for the period ended 30 June 2017 was represented to reclass the pacemaker revenue previously included in cardiovascular devices business to the CRM business.

2. This segment was restructured in 2017 whereby the Group ceased to hold the controlling interest of Shanghai MicroPort Lifesciences Co., Ltd. (the "MP Lifesciences Shanghai") which became an associate entity of the Group. As a result, the revenue of this segment disclosed herein for the six months ended 30 June 2017 was recorded for the period from 1 January 2017 to the date of loss of control.

The Group's revenue for the six months ended 30 June 2018 was US$309.9 million, increasing by 42.6% compared to US$217.3 million for the six months ended 30 June 2017. The Group's reported revenue was impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries, to US$, the presentation currency of the Group due to the appreciation or depreciation of US$ against RMB. Excluding the foreign exchange impact, the Group's revenue growth rate was 35.3%. Such an increase was primarily driven by strong sales performance of the major business and the acquisition of the CRM business. The following discussion is based on the Group's eight major business segments.

– ***Orthopedics Devices Segment***

The Group's orthopedic devices segment achieved a revenue of US$122.1 million for the six months ended 30 June 2018, representing a growth of 8.4% excluding the foreign exchange impact or 12.3% in US$ compared to the six months ended 30 June 2017. Such operational increase was mainly because (i) revenue in the US market achieved 8.9% growth excluding the foreign exchange impact as US continued its trend of stabilization and growth with a focus on opening new sales channels, surgeon training effectiveness, and new product launches which encouraged revenue growth in the US market; (ii) revenue in Japan increased by 5.1% excluding the foreign exchange impact or 9.4% in US$, which was attributable to positive momentum from Japan market driven by a focus on sales execution and customer development; (iii) revenue in EMEA market increased by 1.8% excluding the foreign exchange impact or 11.5% in US$ over the prior period, mainly effected by the strategy to shift away from lower margin sales channels to higher margin subsidiaries for optimized utilization of limited corporate resources; (iv) revenue in the PRC market increased by 45.8% excluding the foreign exchange impact or 56.0% in US$, which was attributable to the completed internal organizational restructuring and greater market recognition from surgeons, leading to the increase in implants volume; and (v) sales in other markets achieved significant growth of 11.7% excluding the foreign exchange impact or 12.5% in US$, driven by steady growth in Australia and Canada.

– ***Cardiovascular Devices Segment***

The Group's cardiovascular devices segment achieved a revenue of US$106.8 million for the six months ended 30 June 2018, representing a growth of 21.1% excluding the foreign exchange impact or a growth of 29.6% in US$ compared to the six months ended 30 June 2017. Such increase was mainly attributable to (i) Firehawk™ penetrated into an increasing number of hospitals across more provinces in China and overseas, with its global revenue achieving 30.2% growth excluding the foreign exchange impact compared with the six months ended 30 June 2017; and (ii) Firebird2™ sales maintaining a steady growth of 15.4% excluding the foreign exchange impact through advanced distribution channels.

– ***CRM Devices Business***

CRM business was acquired by the Group from LivaNova, and the acquisition was completed on 30 April 2018. Following completion of such acquisition, the financial results of the CRM business has been consolidated into the financial statement of the Group. As a result the revenue of this segment disclosed herein for the six months ended 30 June 2018 includes the acquired business for the period from 30 April 2018 to 30 June 2018 and the previous pacemaker business for the six months period ended 30 June 2018.

– ***Endovascular Devices Segment***

The Group's endovascular devices segment achieved revenue of US$19.9 million for the six months ended 30 June 2018, representing a growth of 51.4% excluding the foreign exchange impact or a growth of 63.2% in US$ compared with the six months ended 30 June 2017. Such growth was mainly attributable to the following factors: (i) positive market recognition and enhanced competitiveness of the Group's endovascular products in thoracic aortic aneurysm and endovascular treatment market as a result of market launch of Hercules™ Low Profile product; (ii) positive market recognition of the newly launched product Castor™, the world's first thoracic branch stent-graft system; and (iii) in response to government guideline, cultivating markets in second-and third-tier cities through effective promotion mechanisms.

– ***Neurovascular Devices Segment***

The Group's neurovascular devices segment recorded revenue of US$8.3 million for the six months ended 30 June 2018, representing a growth of 33.6% excluding the foreign exchange impact or a growth of 43.4% in US$ compared to the six months ended 30 June 2017. Such growth was mainly attributable to (i) the organic growth of 30.7% excluding the foreign exchange impact in APOLLO™ driven by its greater market recognition; (ii) WILLIS™ penetrated into an increasing number of hospitals since being included in Shanghai's Drug Reimbursement List in April 2016, which contributed to the steady growth of 10.7% excluding the foreign exchange impact; (iii) positive market recognition for newly launched Tubridge™, the first flow diverting stent approved for product launch in China; and (iv) rapid growth of an agent product, neurovascular guide wire ASAHI.

– ***Electrophysiology Devices Segment***

The Group's electrophysiology devices segment recorded revenue of US$5.5 million for the six months ended 30 June 2018, representing a growth of 46.2% excluding the foreign exchange impact or a growth of 56.6% in US$ compared to the six months ended 30 June 2017. Such increase was mainly attributable to a significant expansion of the Group's distribution network and hospital coverage, as well as new product sales of Columbus™ and FireMagic™ 3D irrigated ablation catheter.

– ***Surgical Management Segment***

The Group's segment of surgical management devices recorded revenue of US$3.4 million for the six months ended 30 June 2018, representing a growth of 11.3% excluding the foreign exchange impact or a growth of 19.0% in US$ compared to the six months ended 30 June 2017. The increase was primarily attributable to the sales growth of membrane oxygenation system, ultrafiltration and surgical consumable driven by effective sales promotion activities.

– ***Diabetes Care and Endocrinal Management Segment***

The Group's segment of diabetes care and endocrinal management was restructured in 2017 whereby the Group ceased to hold the controlling interest in MP Lifesciences Shanghai which became an associate entity of the Group, and its revenue was no longer consolidated thereafter.

Cost of Sales

For the six months ended 30 June 2018, the Group's cost of sales was US$90.4 million, representing a 53.3% increase as compared to US$59.0 million for the six months ended 30 June 2017. Such increase was primarily attributable to (i) the increased sales volume of the major segments; and (ii) the increased cost of the CRM business which was acquired in April 2018 and consolidated in the six months ended 30 June 2018.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, the Group's gross profit increased by 38.6% from US$158.3 million for the six months ended 30 June 2017 to US$219.4 million for the six months ended 30 June 2018. Gross profit margin is calculated as gross profit divided by revenue. The Group's gross profit margin decreased to 70.8% for the six months ended 30 June 2018 as compared to 72.9% for the six months ended 30 June 2017, primarily due to the dilutive impact of the newly acquired CRM business with a gross margin lower than the average of the Group.

Other Revenue and Other Net Gain/(Loss)

The Group recorded other revenue of US$4.2 million and other net gain of US$0.1 million for the six months ended 30 June 2018, while other revenue and other net loss were US$1.9 million and US$4.4 million, respectively, for the six months ended 30 June 2017. The increase in other revenue was attributable to the increase in government grant; and the increase in other net gain was primarily due to the foreign exchange gain for the six months ended 30 June 2018 compared with a foreign exchange loss for the six months ended 30 June 2017.

Gain on Deemed Disposal of a Joint Venture

MicroPort Sorin CRM was previously jointly controlled by the Group and LivaNova. After the completion of the CRM Acquisition, MicroPort Sorin CRM became a subsidiary of the Company with its assets and liabilities consolidated into the Company's consolidated financial statements. Accordingly, the acquisition-date fair value of the existing equity interests in MicroPort Sorin CRM owned by the Group forms part of the consideration in determining the amount of goodwill. A gain on deemed disposal of interests in a joint venture of US$4.1 million was recognised in the consolidated profit or loss for the six months ended 30 June 2018, which was determined as the excess of the fair value of the existing equity interests in MicroPort Sorin CRM, over the nil carrying value of investment in the joint venture.

Research and Development Costs

R&D costs increased by 62.6% from US$25.7 million for the six months ended 30 June 2017 to US$41.8 million for the six months ended 30 June 2018. Such increase was primarily due to (i) the acquisition of the CRM business, which incurred research and development costs of US$7.1 million for the six months ended 30 June 2018; and (ii) the increased investments in the on-going R&D projects and the newly kicked off R&D projects.

Distribution Costs

Distribution costs increased by 44.3% from US$63.7 million for the six months ended 30 June 2017 to US$91.9 million for the six months ended 30 June 2018. Such increase was mainly attributable to (i) the acquisition of CRM business, which incurred distribution costs of US$15.8 million for the six months ended 30 June 2018; (ii) increase in sales promotion and post-launching clinical trial expenses; and (iii) increase in staff cost.

Administrative Expenses

Administrative expenses increased by 35.3% from US$31.3 million for the six months ended 30 June 2017 to US$42.3 million for the six months ended 30 June 2018. The increase was mainly attributed to (i) the acquisition of CRM business, which incurred administrative expenses of US$3.6 million for the six months ended 30 June 2018; and (ii) increase in staff cost.

Other Operating Costs

Other operating costs increased from US$1.1 million for the six months ended 30 June 2017 to US$7.9 million for the six months ended 30 June 2018. The increase was mainly attributable to (i) professional fees relating to the acquisition of the CRM business; and (ii) increase of impairment loss of intangible assets.

Finance Costs

Finance costs increased from US$7.0 million for the six months ended 30 June 2017 to US$8.7 million for the six months ended 30 June 2018. The increase was mainly attributable to the interest expenses of new interest-bearing borrowings for the acquisition of CRM business.

Income Tax

Income tax increased from US$7.1 million for the six months ended 30 June 2017 to US$9.9 million for the six months ended 30 June 2018. This is primarily due to the increase in profit before tax of the PRC subsidiaries.

No deferred tax assets were recognized for certain loss-making subsidiaries as at 30 June 2018.

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 the capital structure, the Group may raise capital by way of bank loans or issuance of equity or convertible bonds.

Liquidity and Financial Resources

As at 30 June 2018, the Group had US$106.5 million of cash and cash equivalents on hand, as compared to US$160.2 million as of 31 December 2017. The decrease was mainly attributable to the cash consideration paid for the acquisition of the CRM business. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

Borrowing and Gearing Ratio

Total borrowings of the Group as of 30 June 2018 was US$361.1 million, with an increase of US$109.6 million as compared to US$ 251.5 million as of 31 December 2017. This was driven by the new interest-bearing bank loans for the acquisition of CRM business during the six months ended 30 June 2018. As of 30 June 2018, the gearing ratio of the Group, calculated as total loans, bank borrowings and bonds divided by total equity, increased to 73.5% from 57.2% as at 31 December 2017.

Net Current Assets

The Group's net current asset as at 30 June 2018 was US$149.8 million, as compared to US$230.8 million as at 31 December 2017.

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from sales, purchases, borrowing and lending which give rises to receivables and payables that are denominated in a foreign currency (mainly RMB, Euro and Japanese yen). For the six months ended 30 June 2018, the Group recorded a net exchange gain of US$3.6 million, as compared to a net exchange loss of US$4.8 million for the six months ended 30 June 2017. The Group did not have any hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Capital Expenditure

On 30 April 2018, the Group had additions in property, plant and equipment with provisional fair value of US$22.8 million through the acquisition of the CRM business from LivaNova. In addition, during the six months ended 30 June 2018, the Group's total capital expenditure amounted to approximately US$47.1 million, which was used in (i) construction of building; (ii) acquiring equipment and machinery and (iii) expenditures for R&D projects in development stage.

Charge on Assets

As at 30 June 2018, the Group had set mortgage on its buildings and land use right for own use for the securing a long term loan from Shanghai Municipal Financial Administration with a carrying value of US$0.2 million and bank loans of US$15.2 million.

As at 30 June 2018, a bank loan amounting to US$88.8 million in connection with the acquisition of the CRM Business was secured by the equity interests of the Company's four subsidiaries, namely Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai"), MicroPort International Corp. Limited, MicroPort International Corp. and MicroPort Cardiac Rhythm B.V. and guaranteed by MP Shanghai.

Contingent Liabilities

Reference is made to the announcement dated 30 April 2018 of the Company. The Group was informed by LivaNova that, on 19 April 2018, an investigation has been initiated by a regional antitrust authority in France into the French cardiac rhythm management market, and a subsidiary of the CRM Business operating the business in France is one of the companies being investigated. The Group believes the subsidiary under investigation is in full compliance with all applicable laws and is and intends to continue to cooperate with the relevant authorities. There was no provision provided in relation to the investigation during the six months ended 30 June 2018. Nevertheless, LivaNova agreed to provide a limited indemnity to the Group of generally up to EUR16.5 million relating to such investigation.

Material Acquisition and Disposals of Subsidiaries and Associated Companies

Reference is made to the announcements dated 20 November 2017, 20 February 2018, 8 March 2018, 19 April 2018 and 30 April 2018 and the circular dated 3 April 2018 of the Company. On 8 March 2018, the Company, MicroPort Cardiac Rhythm B.V. (the "Purchaser", a subsidiary of the Company incorporated in Netherlands) and LivaNova entered into a stock and asset purchase agreement (the "Stock and Asset Purchase Agreement"), pursuant to which, the Purchaser has conditionally agreed to acquire, and LivaNova has conditionally agreed to sell, the CRM Business (the "CRM Acquisition") for an initial consideration of US$190 million, subject to working capital and other customary adjustments. The Group believes the CRM Acquisition is in line with the development strategies of the Group and will bring long-term and strategic benefits to the Company. The CRM Acquisition was completed on 30 April 2018.

Other than disclosed above, the Group did not have any other material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2018.

Subsequent Events

In August 2018, 843,571 ordinary shares of the Company at an issue price of HK$9.994 per share were issued by the Company as the 2017 final dividend.

Interim Dividend

The Directors do not recommend the payment of any interim dividend to the Shareholders for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

3. Human Resources and Training

In the first half of 2018, the Group welcomed 893 overseas expertises from international (non-China) CRM business, over half of them are located in Europe. As of 30 June, 2018, the Group had 4,727 employees globally, 1,671 of which were overseas employees spreading around Asia Pacific, EMEA, North America, as well as Australia, accounting for 35% of total employees. For the six months ended 30 June 2018, the Group recorded US$102.6 million for staff cost. The evolution of the global footprint enriches the Group's staff diversity which fuels the future growth.

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

4. Prospect

Under the guidance of our globalization and diversification strategy, the Group will continue to refine and implement business strategies, optimize management structure, accelerate the effective integration of internal resources, and further enhance our capability of independent R&D and innovation, so as to accelerate the substitution process of imported products, and strive to stand out in the increasingly competitive Chinese medical device market, and even the global medical device market.

IV. SUPPLEMENTAL INFORMATION

Purchase, Sale or Redemption of Listed Securities of the Company

Pursuant to the share award scheme approved by the Board on 26 August 2011 ("Share Award Scheme"), the Company purchased, through the trustee of the Share Award Scheme ("Trustee"), a total of 802,000 shares of the Company at cash consideration of US$795,000 on the Stock Exchange for the six months ended 30 June 2018.

Save as disclosed above, during the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the period of six months ended 30 June 2018.

Compliance with the Code on Corporate Governance Practices

Throughout the period of the six months ended 30 June 2018, except for the provisions as addressed below, the Company had complied with all the applicable code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Dr. Zhaohua Chang ("Dr. Chang") has assumed the responsibility of the executive Director and the chairman of the Company and is responsible for managing the Board and the Group's business. As the Board considers that Dr. Chang has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently, he has assumed the position of the chief executive officer of the Company. Nevertheless, the Board will continue to review the efficacy of the Group's corporate governance structure to assess whether the separation of the positions of chairman and chief executive officer of the Company is necessary.

Independent Review of Auditors

The interim financial report for the six months ended 30 June 2018 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements No. 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the Shareholders.

Audit Committee and Review of Financial Statements

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

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 and considered that the results complied with relevant accounting standards, rules and regulations and appropriate disclosure have been duly made.

Changes to Information in Respect of Directors

Ms. Weiwei Chen has resigned as a non-executive Director of the Company and a member of Nomination Committee of the Board due to other work commitment with effect from 21 June 2018.

Mr. Hongliang Yu has been appointed as a non-executive Director of the Company and a member of Nomination Committee of the Board with effect from 21 June 2018. The biographical details of Mr. Hongliang Yu and his information which was required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules were set out in the announcement of the Company dated 21 June 2018.

Save as disclosed above, there has been no change in the Directors nor the information of Directors and senior management of the Company that is required to be disclosed under Rule 13.51(B) of the Listing Rules since the publication of the 2017 annual report of the Company.

Disclosure of Information

The interim report of the Group for the six months ended 30 June 2018 containing all the relevant information required by the Listing Rules will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.microport.com.cn) in due course, in accordance with the Listing Rules.

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

Shanghai, the PRC, 30 August 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, Mr. Hongliang Yu, Ms. Janine Junyuan Feng; and the independent non-executive Directors are Mr. Jonathan H. Chou, Dr. Guoen Liu, and Mr. Chunyang Shao.

* *for identification purpose only*