ANNUAL REPORT 2016

MicroPort Scientific Corporation
微創醫療科學有限公司

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

MicroPort
The Patient Always Comes First

CONTENTS

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTOR

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

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen
Ms. Janine Junyuan Feng *(appointed on 28 March 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Zezhao Hua *(retired on 27 June 2016)*
Mr. Chunyang Shao *(appointed on 23 September 2016)*

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Dr. Zhaohua Chang
Ms. Yee Har Susan Lo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Zezhao Hua *(Chairman) (retired on 27 June 2016)*
Mr. Chunyang Shao *(Chairman) (appointed on 23 September 2016)*
Ms. Weiwei Chen
Dr. Guoen Liu

REGISTERED OFFICE

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

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

1601 Zhangdong Road
Zhangjiang Hi-Tech Park
Shanghai 201203
The PRC

PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

KPMG, *Certified Public Accountants*

LEGAL CONSULTANT

Freshfields Bruckhaus Deringer

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.microport.com.cn

PRINCIPAL BANKERS

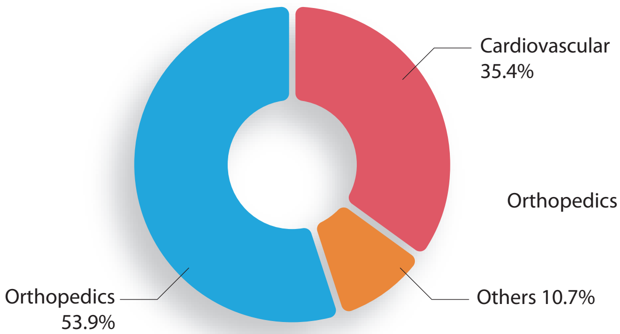
Bank of China (Hong Kong) Limited
China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
China CITIC Bank Shanghai Zhangjiang Sub-Branch
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

FINANCIAL HIGHLIGHTS

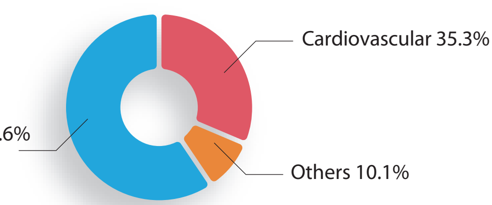
	Financial Year Ended		
	2016 **US$'000**	2015 US$'000	Change %
Revenue	**389,921**	375,844	3.7%
Gross profit	**271,678**	252,509	7.6%
Profit/(loss) for the year	**15,069**	(11,379)	n/a
Profit/(loss) attributable to equity shareholders of the Company	**14,141**	(12,086)	n/a
Earnings/(loss) per share –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

Revenue Analysis

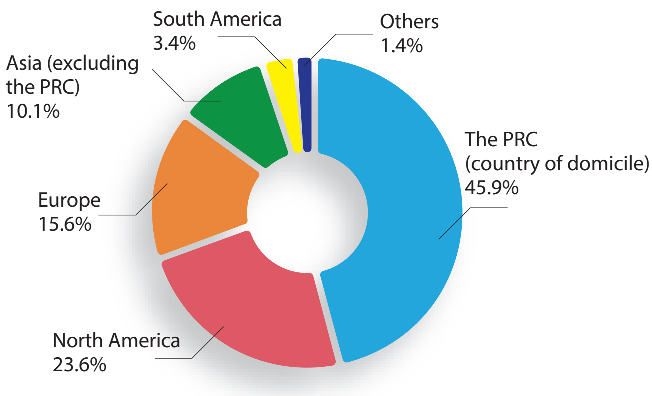
Revenue by Business Segment
For the Year Ended 31 December 2016



Revenue by Business Segment
For the Year Ended 31 December 2015



Revenue by Geographical Region
For the Year Ended 31 December 2016



FIVE YEARS' FINANCIAL SUMMARY

	2016	2015	2014	2013	2012
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**389,921**	375,844	355,284	151,655	147,517
Net profit/(loss)	**15,069**	(11,379)	(59,571)	23,997	56,090
Assets					
Non-current assets	**417,074**	402,403	431,622	219,043	168,946
Current assets	**357,476**	331,240	508,112	299,803	255,504
Total assets	**774,550**	733,643	939,734	518,846	424,450
Liabilities					
Current liabilities	**210,039**	164,601	328,032	77,997	32,546
Non-current liabilities	**218,032**	251,214	267,959	50,416	22,820
Total liabilities	**428,071**	415,815	595,991	128,413	55,366
Total equity	**346,479**	317,828	343,743	390,433	369,084

COMPANY PROFILE

MicroPort Scientific Corporation (the "Company" or "MicroPort") and its subsidiaries (collectively the "Group") is a leading medical device group focusing on innovating, manufacturing and marketing high-end medical devices globally. With a diversified product portfolio now being used in over 5,000 hospitals of approximately 80 countries, the Group maintains world-wide operations in a broad range of business segments including orthopedics, cardiovascular, endovascular, neurovascular, electrophysiology ("EP"), surgical, diabetes care and endocrinal management. Our products are now being used worldwide at an average rate of one for every 15 seconds. The Group is dedicated to becoming a patient-oriented global enterprise that advances the forefront of technology innovation to develop the best and most affordable medical therapies to save and reshape patients' lives as well as to improve the quality of life of the patient.

The Group is human-oriented and is committed to improving people's lives through practical application of innovative science. We continually develop leading technologies and products for physicians, with affordable life-saving solutions and treatments for patients. We are a young group with an ambition to establish MicroPort as a globally recognised brand. Yet as the business grows, we strive to retain our unique entrepreneurial spirit and our commitment to improving the social well being, and continue to demonstrate entrepreneurial achievement and innovation spirit.

We have a large and growing intellectual property portfolio and a strong research and development ("R&D") team. We work in close cooperation with internationally recognized physicians and scientists worldwide, to develop a range of products that meet the highest quality and clinical standards. As we strive to provide state of the art medical technologies and deliver the next generation medical devices and treatments for chronic ailments, our R&D team applied their expertise to ensure the sustained innovation of our latest products.

With a large global footprint of R&D and manufacturing facilities in Shanghai, Jiangsu, Zhejiang, Beijing and Shenzhen in China, and Memphis, Tennessee in the United States, a strong focus on technology innovation with over 1,700 approved patents, and a global workforce of nearly 3,000 employees, MicroPort is committed to achieving its corporate vision.

Our products touch the lives of many people every day and we take this important responsibility very seriously. We are proud that MicroPort products will always achieve the highest standards of quality and ensure improved health for the patients. We know our products offer hope and relief to many people around the world, and every one of our employees takes personal responsibility to achieve our vision.

And it is our commercial achievements that enable us to contribute back to the society, which makes our success deserved. Our commitment to social responsibility is an important aspect of our company culture and philosophy. MicroPort works diligently to build strong relationships with all our international partners and all our stakeholders, because we take our community as an essential part of our business, and we strive to pursue the essence to achieve the greatness.

OUR VISION

Human-oriented and Strive to Make a Global Leading Medical Group for the Patient in Emerging Medical Technologies Areas Represented by Minimally Invasive.

OUR MISSION

We Continuously Innovate and Subsequently Commercialize the Best and Yet Affordable Therapeutic Solutions to Save and Reshape Lives as well as Improve the Quality of Life.

Dr. Zhaohua Chang Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2016 was a remarkable year in MicroPort's journey. In the face of technical changes in the global medical device industry, in particular the policy reform in the PRC medical device industry and fierce market competition, we firmly pushed forward the strategies of both diversification and globalization. Leveraging the excellent quality of our core products, aggressive market development strategy and refined operation management, we achieved significant increase in revenue from various business segments. The Group's revenue increased by 6.6% year-on-year (excluding foreign exchange impact) and it recorded net profit of US$15.1 million. The Group recorded strong performance by turning into profit from loss after suffering the pain arising from the transformation and upgrading following the acquisition of U.S. orthopedics business.

Our orthopedics business continued to make steady progress as scheduled. For the international (non-PRC) orthopedics business, 2016 was a year during which the results of implementing various transformational measures started to show impact. The international orthopedics business recorded positive revenue growth for the first time in the past 7 years, and further narrowed losses. It was attributable to the brand and channel development in key markets, which enhanced the awareness of products of the Company and improved the depth and coverage of sales; refined operation flow and global supply chain consolidation, which enabled the significant increase in gross profit margin; and our investment in basic functions such as research and development. These measures have provided lasting drivers for the turn-around and future continuous growth of the Company. For the PRC orthopedics business, we continued to speed up the pace of introducing U.S. orthopedics products into the PRC market. The development of distinctive joints products and technologies in the PRC market was considerably faster than the industry average level, with a 32% increase in revenue. Furthermore, our Global Supply Center, which had commenced operation, and planned tool and joint globalization projects are also expected to further lower the production cost of orthopedics business and improve its competitiveness.

In 2016, our cardiovascular product business firmly occupied the market leading position, mainly attributable to the rapid growth of the world's first and only target eluting stent, our Firehawk™ Coronary Rapamycin Target Eluting Stent ("Firehawk™"), and the steady growth of our cost-effective Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™"). Revenue from Firehawk™ in 2016 increased by 127%. At the same time, driven by the diversification strategy, the Company's core business including endovascular devices business, EP segment and neurovascular business, also recorded strong performance with increase of 20% or above in revenue.

Being a R&D-driven medical device company, we understand that the continuous development of novel products can enhance the enterprise's competitiveness and advance its long-term sustainable development, and more importantly, provide global patients with medical devices which are of better performance and lower price such that more patients' lives can be saved. Therefore, we continue to invest in our in-house R&D capability, extensively discover and train talents, cooperate with international technology pioneers so

CHAIRMAN'S STATEMENT

as to maintain the pioneering and vitality of R&D technology. In 2016, our R&D projects were in an orderly way of progress. At the end of 2016, there were 55 projects formally set up and under development. During the year, our four Class-III medical device products were approved by the China Food and Drug Administration (the "CFDA") for launch in the market, and another four products had been approved for entering the CFDA's "green channel" with rapid approval.

In addition to the strong market performance of our products, in 2016, we had also made achievements in the capital market: we entered into a strategic cooperation agreement and a capital injection agreement with Lombard Medical, Inc., a medical device company listed in the U.S., to together build an abdominal aortic aneurysm endovascular treatment production line with the widest coverage in the PRC, which will further consolidate our leading position in the endovascular abdominal aortic aneurysm treatment market which is rapidly developed in the PRC and enable us to expand into international endovascular abdominal aortic aneurysm treatment market with huge market potential. We have entered into strategic cooperation with MinInvasive, an Israel-based company which is principally engaged in the manufacturing of OmniCuff™, a new generation of rotator cuff repair instrument, to together expand into the rotator cuff repair sports medicine market in the PRC. We also entered into an equity transfer and capital increase agreement in respect of MP Endo with strategic investors and raised proceeds of approximately RMB400 million in total, which has introduced strategic investors with professional background to its subsidiary and will further optimize the financial structure of the Company and support the continuous development of various business segments. With the efforts of the Company and the recognition in the capital market, shares of the Company were admitted into the Shenzhen-Hong Kong Stock Connect program on 6 March 2017, which will enable more mainland investors to understand the strategy and future development of the Company.

In 2017, MicroPort's management team will leverage on its product and brand advantages and continue to carry out expansion and penetration in domestic and overseas markets. It will continue to refine management and improve operational efficiency, make reasonable arrangements for and actively push forward the research and development and commercialization of new products, and maintain stable and prudent financial policies. Looking forward, we will continue to launch various products with leading technology and high quality, such as VitaFlow™ Transcatheter Aortic Valve and its Delivery System, home-made joint products, Castor™ Thoracic Endovascular Stent Graft and delivery system and pacemakers. MicroPort is committed to providing more patients with cost-effective medical devices and building MicroPort brand to be synonymous with quality, innovation and above all integrity worldwide.

During the reporting year, our directors, senior management officers and all our staff upheld the principles of honesty, diligence and responsibility in pursuit of excellence at the subtlety. On behalf of all members of the Company, I would like to express my gratitude and appreciation to all our shareholders, suppliers, distributors, physicians, as well as business communities and partners for their dedicated support over the years.

Dr. Zhaohua Chang
Chairman

29 March 2017

BUSINESS OVERVIEW

OVERVIEW

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

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

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

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

ORTHOPEDICS BUSINESS

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

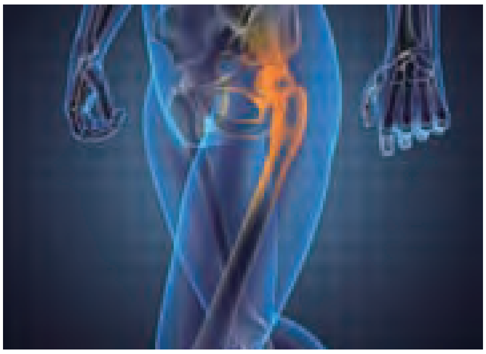
In 2016, the third year after the acquisition of OrthoRecon business from Wright Medical Group Inc. (NASDAQ: WMGI) ("Wright Medical"), we focused on integrating the supply chain system of orthopedics business, establishing professional and stable sales channels, controlling manufacturing and operating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

For the international (non-PRC) orthopedics business, 2016 was a year during which the results of implementing various transformational measures started to show impact. The international orthopedics business recorded positive revenue growth for the first time in the past 7 years, recorded positive cash flows and EBITDA as planned and further narrowed losses, while investing in the necessary fundamental changes that will allow this business not only to complete its full turnaround, but to ignite its growth engine and start becoming a recognized leader in the orthopedic industry. We also successively enhanced our brand recognition through ways such as actively attending major industrial conferences, seeking cooperation with more well-known doctors and highlighting our new logo through celebrity endorsement. We enhanced the construction of sale channels in such key markets as Japan, the United States, France and Australia, constantly enhanced the product lines and created products with regional characteristics on the basis of the existing products, and improved surgical efficiency to seize more potential markets. More noteworthy is that our efforts to improve gross profit margin were proven to be effective in 2016, which was led by the sound execution of our cost reduction initiatives and improvement in the manufacturing processes.

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

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

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



CARDIOVASCULAR DEVICES BUSINESS

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

11.8%

Revenue increased 11.8% excluding the foreign exchange impact compared to the prior year

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

In 2016, the revenue of Firehawk™ recorded a year-on-year increase of 127.0% (excluding the foreign exchange impact), of which the overseas sales revenue increased by 212.4% (excluding the foreign exchange impact). In 2016, Firehawk™ accounted for approximately 24.0% in the overall revenue of the Group's DES (2015: approximately 12.2%); Firehawk™ accounted for 16.4% in the overall delivered sales volume of the Group's DES (2015: approximately 7.1%). In the domestic market, Firehawk™ covered more than 300 hospitals in 27 provinces, representing an increase of 94.7% from 2015. In the international market, Firehawk™ covered 26 countries, increased by 16 countries from 2015.

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

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

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

ENDOVASCULAR DEVICES BUSINESS

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

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

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

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

23.6%

Revenue increased 23.6% excluding the foreign exchange impact compared to the prior year

EP DEVICES

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

28.1%

Revenue increased 28.1% excluding the foreign exchange impact compared to the prior year

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

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

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

19.5%

Revenue increased 19.5% excluding the foreign exchange impact compared to the prior year

NEUROVASCULAR DEVICES BUSINESS

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

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

SURGICAL MANAGEMENT BUSINESS

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

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

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

DIABETES CARE AND ENDOCRINAL MANAGEMENT BUSINESS

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

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

JOINT VENTURE – MICROPORT SORIN CRM (SHANGHAI) CO., LTD. ("MSC")

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

RESEARCH AND DEVELOPMENT ("R&D")

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

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

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

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

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

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

MANUFACTURING

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

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

In 2016, the Group continued to improve the Environment, Health and Safety ("EHS") management system and implement the systematic management process: we compiled and updated the text of safety contingency plans; we enhanced all staff's safety awareness and ability, fostered the cultivation of safety culture and guaranteed the emergency managing ability through implementing safety-themed promotions, organizing large-scale safety inspections, carrying out EHS special training and preparing drill activities; we implemented the management of the troubleshooting system for potential hazards to guarantee safety by carrying out monthly inspection and record in order to enhance alertness and optimize the methods of handling; we implemented safety inspection by conducting various types of safety inspection (including flight inspection) and being inspected by the government to ensure a steady safety status and that the potential risks are dealt with effectively; we implemented the preventive work of occupational hazards by initiating the work of testing, evaluation and health checkup in respect of occupational hazards in order to protect our staff from occupational hazards.

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

QUALITY ASSURANCE ("QA")

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

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

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

COMPETITION

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

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

INTELLECTUAL PROPERTY

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

FINANCIAL REVIEW

OVERVIEW

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

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

REVENUE

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

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

– ORTHOPEDICS DEVICES SEGMENT

Our orthopedics devices segment achieved a revenue of US$210.2 million for the year ended 31 December 2016, representing a growth of 1.6% excluding the foreign exchange impact and 2.4% in US$ compared to the year ended 31 December 2015. Such increase was mainly attributed to (i) revenue in the United States market achieved 0.4% growth in 2016 excluding the foreign exchange impact, as it has been stabilizing since we acquired the OrthoRecon business in January 2014. The Group has successfully executed the strategy of stabilizing and growing in the US market, including more effective product promotion, medical education and recruitment of experienced competitive sales representatives; (ii) revenue in the PRC market achieved a growth of 16.5% excluding the foreign exchange impact compared to the year ended 31 December 2015. In particular, its joints revenue grew 32% excluding the foreign exchange impact through continued launching to more hospitals across provinces, attracting more distributors and gaining greater market recognition from Chinese surgeons, which is slightly offset by the decrease in revenue of spine and trauma products due to internal restructuring; (iii) the EMEA market stabilized with 0.6% growth excluding the foreign exchange impact despite unfavorable macroeconomic conditions; (iv) revenue in Japan declined by 4.5% excluding the foreign exchange impact as a result of the continued adverse impact of reduced reimbursement rates at Japanese hospitals, despite increased unit sales; and (v) revenue in other markets achieved significant growth of 11.4% excluding the foreign exchange impact driven by new customer expansion in Latin America coupled with strong business growth in Australia.

– CARDIOVASCULAR DEVICES SEGMENT

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

– ENDOVASCULAR DEVICES SEGMENT

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

– EP DEVICES SEGMENT

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

– NEUROVASCULAR DEVICES SEGMENT

Our neurovascular devices segment recorded a revenue of US$8.8 million for the year ended 31 December 2016, representing a growth of 19.5% excluding the foreign exchange impact or a growth of 12.5% in US$ compared to the year ended 31 December 2015. Such growth was mainly attributable to the organic growth of 34.3% excluding the foreign exchange impact in APOLLO™ Intracranial Stent System driven by its greater market recognition.

– SURGICAL MANAGEMENT SEGMENT

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

– DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT

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

COST OF SALES

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

OTHER REVENUE AND OTHER NET INCOME

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

RESEARCH AND DEVELOPMENT COSTS

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

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER OPERATING COSTS

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

FINANCE COSTS

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

INCOME TAX

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

BORROWING AND GEARING RATIO

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

NET CURRENT ASSETS

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

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL EXPENDITURE

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

CHARGE ON ASSETS

As at 31 December 2016, for the purpose of securing the Otsuka Loans with a carrying value of US$40.4 million, the Group had pledged (i) the assets of MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., and MicroPort Direct LLC; (ii) the real property owned by MicroPort Orthopedics Inc.; (iii) the equity interests in MicroPort Scientific Cooperatief U.A., MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., MicroPort Direct LLC, Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai"), MicroPort Orthopedics Japan K.K., MicroPort Scientific SAS, MicroPort Scientific S.R.L., MicroPort Orthopedics NV, MicroPort Scientific Ltd. and MicroPort Scientific GmbH; and (iv) the equity interest, title and interest in certain assets held by MicroPort Orthopedics Japan K.K.. The Group had also pledged its manufactory buildings, headquarter buildings and land use rights held for own use for the purpose of securing a long term loan from Shanghai Municipal Financial Administration with a carrying value of US$0.2 million and bank loans of US$43.6 million.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group has issued a guarantee of RMB30.0 million (equivalent to US$4.3 million) (2015: nil) in respect of a banking facility granted by a bank to MSC, the Group's joint venture. As at 31 December 2016, the banking facility was utilised to the extent of RMB7.5 million (equivalent to US$1.1 million).

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

SUBSEQUENT EVENTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES ("HR")

2016 represents a significant year for the Group from people perspectives across organizations, our Orthopedics business unit completed stages of the resources optimization, restructuring and marching toward the turnaround journey after two years of post-merger integrations. The Group continued to drive the talent management processes to the next level by robust KPI deployment, flawless executions and comprehensive measurement and evaluations process which enable us championing the Performance Driven culture.

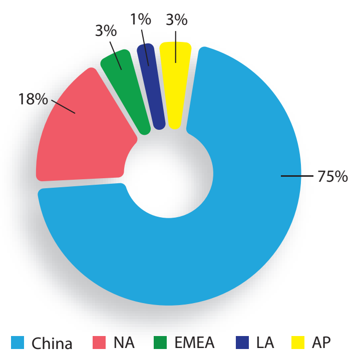
We are committed to carry out our principles on people and embrace the "One Talent Review & Inventory", "Dual Career Development", "Leadership Development Trio Program" as our foundation of all our Talent Practice to fuel Company's strategic growth.

GLOBAL EXPANSION

As MicroPort continued to expand on global scale, to manage and motivate global workforce is crucial for the Group as people is the most critical foundation prior to any business execution and growth. Our people composition reflects MicroPorts' global expansion as our footprints migrates from a China based company to become a global player.

As at 31 December 2016, the Group employees totaled 2,910, working in EMEA, South America and Asia Pacific. We start to embrace 25% of the workforce from outside of China. The demographics of workforce are summarized below:

WORKFORCE DISTRIBUTION BY REGIONS



RESEARCH AND DEVELOPMENT

As a leading medical devices company, the Group devoted over 20 percentage of the total human capital in the R&D areas which demonstrated our commitment to the innovations and the encouragement to develop our intellectual property. The above demographic includes 190 Post Graduate scientists which builds the solid R&D capability within MicroPort. At the same time, we also attracted 46 returnees from overseas who were technology master in their own fields and willing to dedicate to our industry success in the motherland. Those returnees bring the compliments for our internal talent so to connect with the global leading technology.

ACCELERATED TALENT DEVELOPMENT

In order to cope with business needs, HR utilized leading assessment technics which includes 360 degree feedback process and other psychometrics tools to support the talent development within MicroPort. In 2016, all 33 newly promoted management team has been through the 360 Degree Annual Review as well as the Leadership Potential Assessment processes. Each of the newly promoted senior staffs has been assigned for an individual coach to enhance, accelerated and tailor the individual development.

As we are proud to state how our dual career tracks systems works, the technical career path had 118 technicians promoted within 2016 which enrich the diversified career development path for technical staffs. HR also instills the quarterly e-Performance Appraisal systems and the rating process to ensure the effectiveness of the development and linkage to the KPIs. Competencies Model was utilized which provide the framework of the talent management.

TRAINING AND KNOWLEDGE MANAGEMENT

After years' build-up, we currently have engaged 62 leaders and line managers to serve as the internal trainer to conduct the knowledge transfer as well as training curriculums delivery. All senior executives were able to share their expertise in the monthly Senior Executive Forum which opens to all employees. At the same time HR has established robust training and development curriculums to cover the various business needs. We also put e-learning curriculums into the systems to meet the professional/technical development needs while provides flexible learning options.

Level One to Five Leadership Curriculum were constructed and articulated the development roadmap in order to cultivate the future MicroPort leaders.

COMMITT TO TALENT FOCUSED CULTURE

As MicroPort is committed to the People, HR continues to explore all the innovative ways to retain and motivate our talents via total rewards system. Employees are able to participate in the company's growth through a variety of compensation and rewards systems, including Share Award Scheme, Share Option Scheme, Long Term Incentive Plan and Annual Performance Bonus Scheme.

We have 16 Horizontal Organizations to support the Employee Care as well instill the MicroPort family culture which enable the Talent focused attention as well as retention. These organizations lead various activities from the sports to the learning sessions which enhance the employee engagement.

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang (常兆華), born in 1963, is our founder, Executive Director ("Director"), Chairman and Chief Executive Officer ("CEO") of the Company. Dr. Chang has served as a Director since 14 July 2006 and assumed the responsibility of the CEO of the Company from April 2008 to July 2010, and reassumed the responsibility of the CEO of the Company from 20 September 2012. Dr. Chang is currently holding directorship in various subsidiaries of the Group. Dr. Chang has over 26 years of experience in the medical device industry, and he is currently a professor of the Medical Device College of the University of Shanghai for Science and Technology. Prior to founding Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械(集團)有限公司) ("MP Shanghai") in 1998, Dr. Chang was the vice president of research and development of Endocare Inc., a NASDAQ listed medical device company based in California, U.S., from 1996 to 1997. From 1990 to 1995, he was the senior engineer and senior scientist, director of research and development and vice president of engineering at Cryomedical Sciences Inc., a medical device company in Maryland, U.S., which was listed on NASDAQ prior to its acquisition by a third party. Dr. Zhaohua Chang received a bachelor's degree in refrigeration engineering in 1983 and a master's degree in cryogenics in 1985 from the University of Shanghai for Science and Technology. Dr. Chang received his Ph.D. degree in biological sciences from the State University of New York at Binghamton in 1992.

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida (蘆田典裕), born in 1954, is a Non-executive Director of the Company. Mr. Ashida has served as a Director since 1 November 2006 and has also served as a Director of MP Shanghai since March 2004. Mr. Ashida is currently holding directorship in certain subsidiaries of the Group. Mr. Ashida is an Executive Operating Officer of Otsuka Holdings Co., Ltd. ("Otsuka Holdings") and the Director of its business development and planning department. Mr. Ashida is also a Director of Otsuka Medical Devices Co., Ltd. ("OMD"), a subsidiary of Otsuka Holdings. He joined Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") in April 2003 from Mizuho Corporate Bank Ltd., where he was a general manager from 2002 to 2003. From 1999 to 2002, Mr. Ashida was a general manager of the Industrial Bank of Japan ("IBJ"), where he headed the credit department for western Japan. From 1995 to 1999, Mr. Ashida served as Vice President responsible for business development at 3iBJ Ltd., a venture capital firm formed by 3i Group plc and IBJ. From 1989 to 1995, Mr. Ashida was a Senior Vice President of IBJ (Canada). He joined IBJ in 1977 in its Tokyo branch. Mr. Ashida received his bachelor's degree in economics from the University of Tokyo in 1977.

Mr. Hiroshi Shirafuji (白藤泰司), born in 1944, is a Non-executive Director of the Company. Mr. Shirafuji has served as a Director since 1 November 2006 and Mr. Shirafuji is currently holding directorship in certain subsidiaries of the Group. Mr. Shirafuji is the President and representative director of OMD. Prior to joining OMD in February 2011, he was an Executive Director responsible for pharmaceuticals marketing at Otsuka Pharmaceutical from 1997 to 1998. Mr. Shirafuji joined Otsuka Pharmaceutical in 1967. Mr. Shirafuji received his bachelor's degree in economics from Doshisha University in Kyoto in 1967.

Ms. Weiwei Chen (陳微微), born in 1972, was appointed as the Non-executive Director of the Company on 30 June 2014. Ms. Weiwei Chen is also a director of Leader City Limited and MicroPort Medical Limited (subsidiaries of the Company). Ms. Weiwei Chen is now the Chairperson and General Manager of Shanghai Zhangjiang Science & Technology Venture Capital Co., Ltd. Ms. Weiwei Chen graduated from Tongji University with a master degree in Environment Engineering. Ms. Chen, an economist, has the senior qualification of China Association for Professional Managers and the professional title of Engineer.

Ms. Janine Junyuan Feng (馮軍元), born in 1969, was appointed as the the Non-executive Director of the Company on 28 March 2016. Ms. Feng is currently a managing director of the Carlyle Group. Ms. Feng has been involved in many direct investments by the Carlyle Group in consumer, financial, and industrial companies in the PRC. Prior to joining the Carlyle Group, Ms. Feng worked for Credit Suisse First Boston's New York office, engaging in investment banking business. She was a non-executive director of China Pacific Insurance (Group) Co., Ltd. (中國太平洋保險(集團)股份有限公司), a company listed on the Stock Exchange (stock code: 2601) and Shanghai Stock Exchange (stock code: 601601), from 2007 to 2013, a non-executive director of Natural Beauty Bio-Technology Limited (自然美生物科技有限公司), a company listed on the Stock Exchange (stock code: 157), from 2009 to 2014, and a non-executive director of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司), a company listed on the Stock Exchange (stock code: 1169) from 2011 to 2015. Ms. Feng has also served as an alternate director in China Fishery Group Limited, a company listed on Singapore Exchange (stock code: B0Z), from 2010 to 2015. Ms. Feng is currently serving as a non-executive director of Hedy Holding Company Limited (七喜控股股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: SZ: 002027), and a non-executive director of Meinian Onehealth Healthcare (Group) Co., Ltd. (美年大健康產業(集團)有限公司), a company listed on Shenzhen Stock Exchange (stock code: SZ:002044). Ms. Feng received a Master of Business Administration degree from Harvard Business School and a Bachelor of Arts degree from Middlebury College.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou (周嘉鴻), born in 1964, was appointed as our independent non-executive Director ("INED") on 3 September 2010. Mr. Chou is Executive Vice President & Chief Financial Officer of Kulicke & Soffa Industries, Inc., a NASDAQ listed company (NASDAQ: KLIC) (the "K&S") effective 31 October 2016. His overall responsibilities cover Finance, IT and Facilities. Prior to October 31, 2016, he has been the Interim Chief Executive Officer and the Chief Financial Officer of K&S. Mr. Chou brings to K&S nearly 30 years of professional experience. He started his career at Citibank as Management Associate and spent a decade in both international corporate and investment banking. After joining the corporate side, Mr. Chou held various senior finance leadership positions with Fortune 500 companies and an Asia-based U.S. listed company which he led the listing process in taking a Sequoia Capital portfolio company to the NYSE main board. Before his publicly listed company Group CFO roles, he held Asia Pacific CFO positions with Honeywell International, Tyco International, Lucent Technologies Inc. and Public Service Enterprise Group of New Jersey. Mr. Chou received a Bachelor's Degree from State University of New York at Buffalo and a Master of Business Administration degree from Fuqua School of Business at Duke University.

Dr. Guoen Liu (劉國恩), born in 1957, was appointed as our INED on 3 September 2010. Dr. Liu is a noted scholar in the fields of health and development economics, health reform and pharmaceutical economics. Dr. Liu is a Peking University (PKU) Yangtze River Scholar Professor of Economics at PKU National School of Development, Vice Chairman of PKU Faculty of Economics and Management, and Director of PKU China Center for Health Economic Research. Dr. Liu sits on The China State Council Health Reform Advisory Commission, and the UN "Sustainable Development and Solution Network" (SDSN) Leadership Council led by Jeffrey Sachs of Columbia University, and Co-Chairs the SDSN Health Thematic Group. From 2006 to 2013, he was a full professor at PKU Guanghua School of Management. From 2000 to 2006, Dr. Liu was tenured associate professor of University of North Carolina at Chapel Hill. From 1994 to 2000, Dr. Liu was assistant professor of University of Southern California. Dr. Liu also serves as editor or a member of the editorial board in various periodic in the field of pharmaceutical economics. Dr. Liu received his bachelor's degree in mathematics from Southwestern University for Nationalities in 1981, his master's degree in statistics from Southwestern University of Finance and Economics in 1985, his Ph.D. in economics from the City University of New York in 1991, and post-doctoral training in health economics from Harvard University in 1994.

Mr. Chunyang Shao (邵春陽), born in 1964, was appointed as our INED on 23 September 2016. Mr. Shao is currently a partner of JunHe LLP and a member of the All China Lawyers Association and Shanghai Bar Association. Mr. Shao specializes in practice such as corporate, foreign investment, real estate, mergers and acquisitions, securities, infrastructure and project finance. From July 1988 to October 1993, Mr. Shao worked in Anhui Foreign Economy Law Office. From November 1995 to March 2002, Mr. Shao worked in the London, Hong Kong and China offices of major international law firms, including in Simmons & Simmons as PRC legal counsel and Sidley Austin as a senior PRC legal consultant. Mr. Shao joined JunHe LLP in April 2002. Mr. Shao is currently the independent director of Changjiang & Jinggong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600496).Mr. Shao received his bachelor degree in law from East China University of Political Science and Law in 1987, and was admitted to practice PRC law in 1988. From 1993 to 1994, Mr. Shao worked as visiting lawyer in Sino-Britain Young Lawyers' Exchange Program in the UK. In 2002, he received his master degree in law from East China University of Political Science and Law.

SENIOR MANAGEMENT

After the Completion of the Acquisition of Wright Medical's OrthoRecon Business, the Company consists of two geographically distinctive operational units which are Greater China and Inter-continental respectively managed by Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC"), which are under management of Dr. Zhaohua Chang (常兆華), Executive Director, the Founder, Chairman and CEO of the Company and MP Shanghai. Please refer to the section headed "Directors—Executive Director" above for the details of his biography.

GREATER CHINA EXECUTIVE COMMITTEE

Mr. Bo Peng (彭博), born in 1968, is Chief Marketing Officer of MP Shanghai and Chairman of CEC. Prior to August 2010, Mr. Peng served as Senior Vice President of domestic sales and marketing of the Company. Mr. Peng has over 20 years of experience in marketing and sales. Prior to joining us in 2001, Mr. Peng served as Vice President, General Manager of the sales subsidiary, and Director of Xianxing Electronics Group. Mr. Peng received his bachelor's degree in computer science from Changchun University of Science and Technology in 1990 and a master's degree in business administration from Shanghai University of Finance & Economics in 2003.

Mr. Hongbin Sun (孫洪斌), born in 1975, is the Chief Financial Officer ("CFO") of the Company and MP Shanghai, Co-Chairman of CEC. Mr. Sun served as a Director of the Company from 22 July 2010 to 20 September 2012. He was also a Supervisor of MP Shanghai until July 2010. Mr. Sun is currently holding directorship in Shanghai MicroPort Orthopedics Co., Ltd. (上海微創骨科醫療科技有限公司), a subsidiary of the Group. Mr. Sun has over 19 years of finance experience. Mr. Sun was the Director and General Manager of Otsuka China from 2006 to July 2010. From 2004 to 2006, he served as a Financial Director of Otsuka China. From 1998 to 2003, Mr. Sun was an Assistant Manager of KPMG Shanghai Office. Mr. Sun is a member of the Chinese Institute of Certified Public Accountants and is also a Chartered Financial Analyst. Mr. Sun received his bachelor's degree in economics from Shanghai Jiao Tong University in 1998.

Mr. Qiyi Luo (羅七一), born in 1962, is the Chief Technology Officer ("CTO") of the Company. Mr. Luo served as a Director of the Company from 22 July 2010 to 20 September 2012. Mr. Luo is currently holding directorship in Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司), a subsidiary of the Group. Mr. Luo has over 20 years of experience in the medical device industry. Prior to joining us in 2003, he worked as Principal Research and Development Engineer and Senior Manufacturing/Development Engineer at Medtronic AVE in the United States from 1995 to 2002. From 1991 to 1995, he worked as Supervisor and Engineer of the angioplasty research and development team at Vas-Cath Inc., a subsidiary of C.R. Bard, Inc., in Canada. Mr. Luo, jointly with others, holds 30 patents and has 52 patent applications pending in China, the United States, Japan and the European Union. Mr. Luo received his bachelor's degree in applied science from Yunnan University of Technology in 1983 and his master's degree in applied science from Queen's University in Canada in 1990.

Mr. Junder Chiang (江俊德), born in 1965, is Chief Human Resources Officer ("CHRO") of the Company. He served as the CHRO of the Company since 15 December 2014. Mr. Chiang has gained rich international experience as Human Resource Senior Executive in top multinational corporations. Before joining the Company, Mr. Chiang served as Chief People Officer for McDonald Corporation (China Operations) in 2014, and worked as Senior HR Leader for General Motors (JV Liaison China) from 2005 to 2008. Mr. Chiang has also gained valuable experience working for Delphi in Singapore and USA between 1995 and 2004. Mr. Chiang earned a Bachelor's Degree from Taiwan-based Tamkang University, majoring in Business Economics, and achieved his Master's degree in Business Administration in Human Resources and Organization Development from University of Illinois Urbana-Champaign in the USA.

Mr. Yimin Xu (徐益民), born in 1967, Executive Vice President of Regulatory Affairs of MP Shanghai. Mr. Xu was Vice President of Quality and Regulatory of MP Shanghai until January 2011. He has over 17 years of experience in medical device industry. Prior to joining us in 2000, Mr. Xu served as project manager in Project Department of Shanghai Zhangjiang Hi-Tech Development Co., Ltd. from 1995 to 2000. Mr. Xu also served as quality engineer in Nanjing No.2 Air Compressor Factory from 1988 to 1992. Mr. Xu received his master degree in Mechanical and Electronic Engineering from Shanghai Jiaotong University in 1995.

Ms. Chengyun Yue (樂承筠), born in 1965, is the first vice president of Corporate Strategy and Planning. Dr. Yue joined Microport in 2005, has served as Supervisor for R&D Support, Senior Manager of Project Management Office, and VP for Planning and Project Management. Prior to joining Microport, Dr. Yue worked in a Biotech start-up company in Southern California for 7 years as a research scientist and research manager for developing islets transplantation product. Dr. Yue received both her Bachelor and Master Degree of Science from Nanjing University, and Ph.D. degree in Material Science from University of Alabama, and did her postdoctoral research at the California Institute of Technology.

INTER-CONTINENTAL EXECUTIVE COMMITTEE

Mr. Jonathan Chen, Executive Vice President of International Operations & Investor Relations of the Company, and Chairman of IEC. Mr. Chen has been with the Company since July 2012. Mr. Chen's primary responsibilities include growing MicroPort's International business in markets outside of China primarily in US, Europe and South America geographies. Mr. Chen has over 20 years' experience in the medical device industry. Prior to joining MicroPort, Mr. Chen worked for Angiotech Pharmaceuticals, Inc. for 6 years where he was Senior Vice President, Business Development where he led the management team to build a $300 million in revenue medical products business through various acquisitions and licensing transactions. Prior to joining Angiotech, Mr. Chen was a life sciences investment banker for Credit Suisse and Alex. Brown & Sons where he helped his clients raise in excess of $2 billion in equity and debt capital and advised on over $3 billion in Mergers & Acquisitions transactions. Mr. Chen has a Bachelor of Arts in Economics and a Bachelor of Sciences with honors in Biological Sciences from Stanford University.

Mr. Aurelio Sahagun, President of MicroPort Orthopedics and Co-Chairman of IEC. Mr. Aurelio Sahagun joined MicroPort Orthopedics as International Vice President, following the acquisition of Wright Medical's Orthorecon Business in January 2014. Mr. Sahagun began serving as Wright Medical's Vice President – EMEA Commercial Operations in May 2011, and had previously served as Vice President-Sales for the region since April 2010. He joined Wright Medical in early 2006 as Director of Finance and Operations in France, and served as both Director of Finance-EMEA and Vice President of Finance-EMEA prior to the positions above. Before Wright Medical, Mr. Sahagun worked for Medtronic where he provided senior financial support to the Spine business across Europe. He began his career in Spain, where he held several finance and business management positions in banking and distribution organizations with increased responsibilities covering Spain, Portugal and Latin-America. Mr. Sahagun holds an MBA degree from HEC (Paris, France), a Bachelor's degree in Economics from UAM (Autonomous University of Madrid, Spain), and has followed additional Executive Education programs at Stanford Graduate School of Business (Stanford, CA-USA) and Harvard Business School (Cambridge, MA-USA).

Mr. Hongbin Sun (孫洪斌), CFO of the Company, Co-Chairman of CEC and member of IEC. Please refer to the above for the details of his biography.

Mr. Qiyi Luo (羅七一), CTO of the Company, and member of CEC and IEC. Please refer to the above for the details of his biography.

Mr. Junder Chiang (江俊德), CHRO of the Company, and member of CEC and IEC. Please refer to the above for the details of his biography.

Mr. Todd Smith, Vice President of Finance of MicroPort Orthopedics Inc. since January, 2014 and a member of IEC since September, 2015. Prior to the acquisition of Wright Medical's OrthoRecon Business by the Company, Mr. Smith had been Wright Medical's Senior Director of Strategic and Financial Planning since 2011. His responsibilities were expanded to include International Operations in 2013. From 2001 to 2010, he served as Wright Medical's Director and Senior Director of International Finance. Prior to joining Wright, Mr. Smith was the Vice President and Controller of Vision America, Inc. for 8 years. He began his career as an audit staff in the Memphis office of KPMG. Mr. Smith is a Certified Public Accountant. He received his Bachelor of Art degree in accounting at Rhodes College in Memphis, TN.

Mr. Bradley L. Ottinger, Vice President of Legal, Compliance and Human Resources of MicroPort Orthopedics Inc. and a member of IEC since March 2016. Mr. Ottinger joined MicroPort Orthopedics Inc. as Associate General Counsel in January 2014 and subsequently served as Vice President, General Counsel, Legal and Human Resources. Prior to joining MicroPort Orthopedics Inc., he worked in Buckeye Technologies Inc. from 2011 to 2014 as Associate General Counsel and provided a breadth of legal services to the enterprise, with a primary focus on corporate transactions. In his career, he has concentrated his practice in the area of securities law and corporate transactions with both an international and domestic focus and used that foundation to develop expertise in corporate compliance and ethics. Mr. Ottinger is a Certified Compliance and Ethics Professional. He received his Bachelor of Arts in Liberal Arts from the Pennsylvania State University in 1991, received a Master of Arts in Education from Vanderbilt University in 1993, and received his Juris Doctorate from Washington University in St. Louis, Missouri in 2002.

The Board of the Company is pleased to present this report together with the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 13 to the consolidated financial statements. There were no significant changes in the nature of Group's activities during the year.

FINANCIAL STATEMENTS

The financial performance of the Group for the financial year ended 31 December 2016 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 79 to 180 of this annual report.

BUSINESS REVIEW

OVERVIEW

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

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position are provided in the part of "Management discussion and analysis" from page 9 to page 26 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

While keeping in mind the responsibility of protecting the environment, the Company is committed to creating a successful business that isn't achieved at the expense of environment, and is dedicated to create an environmentally friendly and sustainable operation. The biggest environmental impact is created within our properties and manufacturing facilities, and through the use of raw materials, electricity, gas, paper, and waste generation. We therefore invest in green technologies to reduce our carbon emissions through efficient use of resources and equipment. For instance, the Company continues to upgrade equipment such as lighting and air-conditioning systems in order to increase overall operating efficiency.

The Company has also formulated energy saving regulations to minimize energy consumption and environmental impacts. With implementation of the regulations, the employees are conscientious in saving energy through details in their daily work.

A comprehensive review on the Company's environmental policies and performance during the year 2016 is provided in the "Environment, social and governance report" from page 64 to page 72 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with legal and regulatory requirements, as well as the risk of non-compliance. The Company has allocated system and staff resources to ensure ongoing compliance with applicable laws, rules and regulations including but not limited to, those laws, rules and regulations promulgated by the China Food and Drug Administration, the government of the Hong Kong Special Administrative Region, Food and Drug Administration, the U.S. Commerce Department, the U.S. Department of Justice, and such entities global counterparts in countries where MicroPort conducts business. We maintain cordial working relationships with regulators through effective communications. During 2016, we have strived to conduct business in accordance with all applicable laws, rules and regulations in all material respects and there is no investigation, disciplinary proceeding or inquiry by, or order, decree, decision or judgment of any authority outstanding, or, to the best of the Company's knowledge, threatened or expected to be issued against any member of the Company or its respective assets or any person for whose acts or defaults it may be vicariously liable, and which is of a material nature.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

The Group's principal business activities are exposed to a variety of financial risks including credit risk, interest rate risk, liquidity risk, and currency risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 33 "Financial Risk Management and Fair Values" to the financial statements of this annual report.

MARKET RISKS

The Group is also exposed to market risks brought by the government. The execution of bidding policy may bring stress for the retails prices of our products. Ongoing decreases in the retails prices of our products or limitations on the profit margins we earn could materially and adversely affect our business, financial condition and results of operation. In addition, as our sales depend to a large extent on the level of insurance reimbursement patients receive for treatments using our products, and China has a complex medical insurance system that is currently undergoing reform, the governmental insurance coverage or reimbursement level in China for treatments using new medical devices such as vascular devices is subject to significant uncertainty and varies from region to region, the Group is exposed to the uncertainty of market share reduction due to above reason.

LEGAL RISKS

From time to time, the Company is subject to various pending or potential legal actions and proceedings, including those that arise in the ordinary course of our business and some of which involve claims for damages that are substantial in amount. These actions and proceedings may relate to, among other things, product liability, intellectual property, distributor, commercial, and other matters. These actions and proceedings could result in losses, including damages, fines, or penalties, any of which could be substantial, as well as criminal charges. Although such matters are inherently unpredictable, and negative outcomes or verdicts can occur, we believe we have significant defenses in all of them, are vigorously defending all of them, and do not believe any of them will have a material adverse effect on our financial position. However, we could incur judgments, pay settlements, or revise our expectations regarding the outcome of any matter. Such developments, if any, could have a material adverse effect on our results of operations in the period in which applicable amounts are accrued, or on our cash flows in the period in which amounts are paid.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers, and shareholders.

EMPLOYEES

People is regarded as our most important asset and overriding priority. The objective of the Group's HR management is to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement. Details of employees of the Company during the year are set out in the "Human Resources" session of this report.

CUSTOMERS

The Group's principal customers are distributors, hospitals, physicians and surgeons, and patients throughout the world. We have been devoted to providing excellent customer service with the purpose of maintaining long term cooperation, enhancing product quality, increasing sales volume and improving profitability.

We have established relationships with many key opinion leaders in medical community, including physicians, researchers and hospital administrators. Through our marketing activities, training seminars and joint research and development projects with hospitals, we have established relationships with a number of well-known interventional cardiologists, radiologists and vascular surgeons, especially in Tier III and II hospitals where a majority of the interventional cardiovascular and other vascular procedures are performed.

Through regular visits with specialists, sponsorship of conferences and physician education programs and other activities, our medical devices are directly marketed to hospitals. Along with our joint research and development projects, we have maintained strong ties with several leading hospitals and physicians around the world, which helps promote our products, raise our profile and enhance our brand recognition.

Our Customer Service Center also collect complains from world-wide customers through our online complain system, so as to help rational settlement of medical disputes.

SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. Apart from transparent and timely disclosure of corporate information in accordance with the Listing Rules of Hong Kong Stock Exchange, the Company has been kept effective communication with shareholders through the Company's website, Wechat platform, shareholder's hotline, and IR mailbox. Senior managements are also glad to receive shareholders' on-site visit and have one-on-one meetings with them to share the information they are concerned which enable them to make rational investment decisions.

FUTURE BUSINESS DEVELOPMENTS

In 2017, facing the increasingly fierce competition of global medical devices industry, we will continuously perform proactive strategies to maintain sustained development and enhance competitiveness through integrating resources, optimizing management structure, deepening internationalization, intensifying innovation, expanding market, and establishing wise information technology, and so on.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2016, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 6.0% and 22.0% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 5.9% and 18.0% respectively of the Group's total revenue for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 31(c)(i) to the consolidated financial statements.

GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past 5 financial years is set out in the section Five Year's Financial Summary of this annual report.

DIRECTORS

Directors during the year and up to the date of this report were:

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen
Ms. Janine Junyuan Feng *(Appointed on 28 March 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Zezhao Hua *(Retired on 27 June 2016)*
Mr. Chunyang Shao *(Appointed on 23 September 2016)*

In accordance with the Company's Articles of Association, Dr. Zhaohua Chang, Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji and Mr. Chunyang Shao, will retire from office as Directors at the forthcoming annual general meeting. All of them will offer themselves for re-election.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 27 to 32 of this annual report.

DIRECTORS' SERVICE CONTRACT

None of the Executive Director and Non-executive Directors has entered into a service contract regarding their office of director with the Company. For the Independent Non-executive Directors, Mr. Jonathan H. Chou and Dr. Guoen Liu entered into a letter of appointment with the Company for a term of three years commencing from 24 September 2010, and Mr. Chunyang Shao has entered into a letter of appointment with the Company for a term of three years commencing from 23 September 2016. All the appointments will continue thereafter unless and until terminated by either party in accordance with the letter of appointment.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service contract which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as an incentive for directors and eligible employees. Details of the scheme are set out in the section headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with highest emoluments are set out in notes 7 and 8 to the consolidated financial statements.

PENSION SCHEME

According to the relevant PRC laws and regulations, the Group's subsidiaries operating in the PRC are required to participate in the defined contribution pension schemes operated by local governments. Under these schemes, the Group is required to pay to the defined contribution pension schemes based on a certain percentage of the remuneration of its employees. The only obligation of the Group with respect to the pension schemes is to make the required contributions under the schemes. Contributions made under the pension schemes are charged in the statements of profit or loss as incurred.

The Company may not utilize any forfeited contributions in order to make fewer contributions than the current amounts.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director/ Chief Executive	No. of Shares	Note	Capacity	Nature of interest	Approximate percentage of interest in the Company
Zhaohua Chang	30,100,000	1	Beneficial owner	Long position	2.09%

Note:

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

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

INTERESTS AND SHORT POSITION IN THE SHARES

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
Otsuka Holdings Co. Ltd	382,994,120	1	Interest of controlled corporation	Long position	26.60
Otsuka Medical Devices Co., Ltd.	382,994,120	1	Beneficial owner	Long position	26.60
Shanghai Zhangjiang (Group) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.40
Shanghai Zhangjiang Science and Technology Investment Co.	221,748,050	2	Interest of controlled corporation	Long position	15.40
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.40
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.40
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.40
Shanghai ZJ Hi-Tech Investment Corporation	221,748,050	2	Interest of controlled corporation/ Beneficial Owner	Long position	15.40
Shanghai ZJ Holdings Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.40
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	2	Beneficial Owner	Long position	14.91
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	15.08
We'Tron Capital Ltd.	217,110,000	3	Beneficial owner	Long position	15.08
Shanghai We'Tron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	15.08
CAP IV L.L.C.	207,181,818	4	Interest of controlled corporation	Long Position	14.39
	42,140,000	4	Interest of controlled corporation	Short Position	2.92
CAP IV General Partner, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.39
	42,140,000	4	Interest of controlled corporation	Short Position	2.92
Carlyle Asia Partners IV, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.39
	42,140,000	4	Interest of controlled corporation	Short Position	2.92

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
CAP IV Coinvestment, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.39
	42,140,000	4	Interest of controlled corporation	Short Position	2.92
Erudite Holdings Limited	207,181,818	4	Interest of controlled corporation	Long Position	14.39
	42,140,000	4	Interest of controlled corporation	Short Position	2.92
GIC Private Limited	123,356,590	5, 6	Interest of controlled corporation/investment manager	Long position	8.56
GIC Special Investments Pte Ltd.	123,331,927	5	Interest of controlled corporation	Long position	8.56
GIC (Ventures) Pte Ltd.	123,331,927	5	Interest of controlled corporation	Long position	8.56
Owap Investment Pte Ltd.	123,331,927	5	Person having a security interest in shares	Long position	8.56
Mondrian Investment Partners Limited	87,995,000		Investment manager	Long position	6.11
Gao Yang Investment Corp.	75,233,720	7	Interest of controlled corporation/ Beneficial owner	Long position	5.22
Shen Yao Fang	75,233,720	7	Interest of controlled corporation	Long position	5.22

Notes:

(1) Otsuka Holdings Co. Ltd. holds the entire issued share capital of Otsuka Medical Devices Co., Ltd. and therefore, is deemed to be interested in the same number of Shares held by Otsuka Medical Devices Co., Ltd. In 25 January 2016, Otsuka Medical Devices Co., Ltd. completed the Secondary Share Sale Agreement with the purchaser Erudite Investment Limited. Accordingly, 86,000,000 ordinary Shares in the capital of the Company together with all rights accruing or attached to the Shares were transferred to Erudite Investment Limited. Thus, the Shares held by Otsuka Medical Devices Co., Ltd. became 382,994,120, and Shares held by Erudite Investment Limited is 86,000,000 from 25 January 2016.

(2) Shanghai Zhangjiang (Group) Co., Ltd. is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Shanghai Pudong New Area People's Government. Shanghai Zhangjiang (Group) Co., Ltd. holds 100% interest in Shanghai Zhangjiang Science and Technology Investment Co., which in turn holds 100% interest in Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited, which in turn holds 50% interest in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai Zhangjiang (Group) Co., Ltd. also holds 50.75% interest in Shanghai Zhangjiang Hi-Tech Park Development Co. Ltd., which in turn holds 100% interest in Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd., which in turn holds 100% interest in Shanghai ZJ Holdings Limited, which in turn holds 50% in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai ZJ Hi-Tech Investment Corporation holds 100% interest in each of Shanghai Zhangjiang Health Solution Holdings Limited, Shanghai Zhangjiang Health Solution Investment Limited and Shanghai Zhangjiang Health Solution Industry Limited. The interest in 221,748,050 Shares held by these companies relates to the same block of Shares by virtue of the long position in the Shares held by the following companies:

Name of Controlled Corporation	No. of Shares	Approximate percentage of total number of Shares in issue (%)
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	14.91
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.48
Total	221,748,050	15.40

(3) Maxwell Maxcare Science Foundation Limited holds 79% of Shanghai We'Tron Capital Corp. which in turn is interested in 94.19% of We'Tron Capital Limited. Therefore, Maxwell Maxcare Science Foundation Limited, Shanghai We'Tron Capital Corp. and We'Tron Capital Limited are interested in the same 217,110,000 Shares held by We'Tron Capital Limited.

(4) Erudite Holdings Limited holds the entire issued share capital of Erudite Parent Limited and Erudite Investment Limited respectively. Erudite Parent Limited and Erudite Investment Limited hold 121,181,818 Shares and 86,000,000 Shares, both in long position respectively. In addition, Erudite Investment Limited holds 42,140,000 Shares in short position. Therefore, CAP IV L.L.C., CAP IV General Partner, L.P., Carlyle Asia Partners IV, L.P., CAP IV Coinvestment, L.P. and Erudite Holdings Limited are deemed to be interested in the same 207,181,818 Shares in long position and 42,140,000 Shares in short position.

(5) GIC Special Investments Pte Ltd. holds the 100% interest of GIC (Ventures) Pte Ltd., which in turn holds 100% interest of Owap Investment Pte Ltd. Therefore, shares held by GIC Special Investments Pte Ltd. and GIC (Ventures) Pte Ltd. are deemed as security interests in the same 123,331,927 shares held by Owap Investments Pte Ltd..

(6) 9,687,000 Shares held by GIC Private Limited are interests held as investment manager.

(7) Shen Yao Fang holds the entire issued share capital of Gao Yang Investment Corp., which in turns holds 52,750,000 Shares. Gao Yang Investment Corp. is also interested in the entire issued share capital of Q1 Capital Corporation, which in turns holds 22,483,720 Shares. Shen Yao Fang and Gao Yang Investment Corp. are therefore deemed to be interested in the same 75,233,720 Shares held by Gao Yang Investment Corp. and Q1 Capital Corporation.

Save as disclosed above, and as at 31 December 2016, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

MANAGEMENT CONTRACT

No contract concerning the management and administration of all or any substantial part of our business was entered into by the Company or existed in 2016.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Save as disclosed in note 36 to the consolidated financial statements, no contract of significance had been entered into between the Company or any of its subsidiaries and the Controlling Shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every Director, Auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, Auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Subject to the Companies Law of the Cayman Islands, if any Director or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Director or person so becoming liable as aforesaid from any loss in respect of such liability.

The Company has maintained directors' liability insurance after Listing which provides appropriate cover for the Directors of the Company.

ADVANCE TO AN ENTITY

For the year ended 31 December 2016, the Company didn't provide any advance to any entity which gives rise to a disclosure under Rule 13.20 of the Listing Rules.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER

The Controlling Shareholder didn't pledge any of its shares in the Company to secure the Company's debts or to secure guarantees or other support of the Company's obligations for the year ended 31 December 2016.

LOAN AGREEMENTS AND FINANCIAL ASSISTANCE OF THE COMPANY

For the year ended 31 December 2016, The Company didn't enter into any loan agreement with covenants relating to specific performance of its Controlling Shareholder nor breach the terms of any loan agreements for the year ended 31 December 2016.

As at 31 December 2016, the Group has issued a guarantee of RMB30,000,000 (equivalent to US$4,325,000) (2015: nil) in respect of a banking facility granted by a bank to MSC, the Group's joint venture. Save as disclosed herein, the Company didn't provide any other financial assistance nor guarantee to its affiliated companies for the year ended 31 December 2016.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Interests and short positions of the Directors in Shares, underlying Shares and debentures of the Company and its associated corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

(I) EXCLUSIVE DISTRIBUTION AGREEMENTS

According to the exclusive distribution agreements entered into between MP Shanghai, a wholly-owned subsidiary of the Company, and Thai Otsuka Pharmaceutical Co., Ltd, Otsuka (Philippines) Pharmaceutical, Inc., P.T. Otsuka Indonesia, and Otsuka Pakistan Ltd. ("Otsuka Group"), and the exclusive distribution agreements entered into between MicroPort D-pulse, a wholly-owned subsidiary of the Company, and P.T. Otsuka Indonesia and Otsuka Pakistan Ltd., details of which were disclosed in the announcement of the Company dated 2 January 2015, and 14 June, 2016, respectively, MP Shanghai and MicroPort D-pulse will supply the drug-eluting stent systems, balloon catheters, inflation devices, Y-connector pack, manifolds and pressure monitoring tubings to the Otsuka Group and the Otsuka Group will act as the Group's exclusive distributors of the aforesaid products in Thailand, Philippines, Indonesia and Pakistan, which would provide the Group the distribution channels to increase the sales of its products.

The transactions conducted under the both of the aforesaid exclusive distribution agreements were made at prices no less favourable than those of similar transactions with independent third parties in accordance with the pricing terms therein. The aforesaid exclusive distribution agreements both expired on 31 December 2016 and a Distribution Framework Agreement were entered into on 23 January 2017 between the Company and Otsuka Holdings Co. Ltd., pursuant to which the Company will appoint Otsuka's associates as exclusive distributors for the medical devices of the Company's subsidiaries in certain countries or region where the respective business of Otsuka and its associates covers.

As Thai Otsuka Pharmaceutical Co., Ltd, Otsuka (Philippines) Pharmaceutical Inc., P.T. Otsuka Indonesia, and Otsuka Pakistan Ltd. are subsidiaries of Otsuka Holdings Co., Ltd., which is the substantial shareholder of the Company as at the date of this report, the Otsuka Group are connected persons of the Company as defined under the Listing Rules. Accordingly, the above transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules. Under the exclusive distribution agreements above, the annual cap of 2016 for the transactions between MP Shanghai and Otsuka Group was USD6 million, the annual cap of 2016 for the transactions between Microport D-pulse and Otsuka Group was USD100,000. During the year of 2016, the actual transaction amount between the Group and Otsuka Group under the exclusive distribution agreements above was USD3.92 million. Within the reporting period, all the continued connected transactions were conducted according to the exclusive distribution agreements, and didn't exceed the annual cap set out in the exclusive distribution agreements.

(II) CREDIT AGREEMENT

Pursuant to the Credit Agreement entered into between Otsuka Medical Devices Co., Ltd. and the Company, details of which disclosed in the announcement of the Company dated 15 December 2013, Otsuka agreed to grant to the Company the facilities amounting to US$200 million for the purpose of financing the acquisition of OrthoRecon business. The loan bears interest on the outstanding principal amount thereof at a rate equal to LIBOR plus 1% per annum. The default rate of interest is 14% per annum.

As Otsuka Medical Devices Co., Ltd. is a wholly-owned subsidiary of Otsuka Holdings Co., Ltd., which is the substantial shareholder of the Company as at the date of this report, Otsuka Medical Devices Co., Ltd. is connected person of the Company as defined under the Listing Rules. Accordingly, the above transactions constituted connected transactions under Chapter 14A of the Listing Rules.

Within the reporting period, all the connected transactions were conducted according to the Credit Agreement. By 9 January 2015, the Company has fully repaid the Term A Loan and the Term C Loan in the aggregate principal amount of US$160 million to Otsuka Medical Devices Co., Ltd. and all accrued and unpaid interests. And by 6 January 2017, the Company has fully repaid the Term B Loan in the aggregate principal amount of US$40 million to Otsuka Medical Devices Co., Ltd. and all accrued and unpaid interests.

(III) EQUITY TRANSFER AGREEMENT

On 3 December 2016, the Company and its wholly-owned subsidiary MicroPort Endovascular CHINA Corp. Limited ("MicroPort Endovascular CHINA"), MP Shanghai and MicroPort (Shanghai) Medical Scientific Investment Co., Ltd. (微創（上海）醫療科學投資有限公司) entered into an equity transfer agreement("Equity Transfer Agreement II") with Zhangjiang Science & Technology Venture Capital Co., Ltd. (上海張江科技創業投資有限公司)("Zhangjiang Sci-Tech Venture"), pursuant to which MicroPort Endovascular CHINA agreed to transfer 2% of the equity interest in MP Endo, a non-wholly-owned subsidiary of the Group, to Zhangjiang Sci-Tech Venture, for the consideration of RMB36.3 million, details of which were disclosed in the announcement of the Company dated 4 December 2016.

As at the date of this report, Zhangjiang Sci-Tech Venture is a wholly-owned subsidiary of Zhangjiang Group. As Zhangjiang Group indirectly holds 15.4% of the equity interest of the Company as at the date of this report, Zhangjiang Group constitutes a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, Zhangjiang Sci-Tech Venture is a connected person of the Company by virtue of being an associate of our connected person and the transaction under the Equity Transfer Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In the opinion of the independent non-executive Directors, the above transactions pursuant to the exclusive distribution agreements, Credit Agreement and Equity Transfer Agreement were carried out in the ordinary and usual course of business of the Group, on normal commercial terms and were in accordance with the relevant Agreements governing them and the pricing policies of the Company, and on terms that were fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole.

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with the Listing Rules 14A.56.

The Company's auditors have confirmed that regarding the continuing connected transactions of the Group, nothing has come to their attention that causes them to believe that:

- the disclosed continuing connected transactions have not been approved by the Board;

- for transactions involving the provision of goods or services by the Group, such transactions were not, in all material respects, in accordance with the pricing policies of the Group;

- the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

- the transaction amount of the disclosed continuing connected transactions as mentioned above have exceeded the annual cap set by the Company.

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

Save for the 10,515,000 shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$5,774,000 on The Stock Exchange of Hong Kong Limited, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 3 December 2016, the Company and its wholly-owned subsidiary MicroPort Endovascular CHINA Corp. Limited ("MicroPort Endovascular CHINA"), MP Shanghai and MicroPort (Shanghai) Medical Scientific Investment Co., Ltd. (微創（上海）醫療科學投資有限公司) (together the "Sale Side Companies") entered into the Equity Transfer Agreements with Shanghai Lianmu Enterprise Management Center (Limited Partnership) (上海聯木企業管理中心（有限合夥）), and Zhangjiang Science & Technology Venture Capital Co., Ltd. (上海張江科技創業投資有限公司) , respectively, pursuant to which MicroPort Endovascular CHINA agreed to transfer an aggregate of 12% of the equity interest in MP Endo ("the Target Company"), a non-wholly-owned subsidiary of MicroPort Endovascular CHINA, to the above mentioned investors. On the same day, the Sale Side Companies and the Target Company entered into the Capital Increase Agreement with, among others, Shanghai Jiushen Private Equity Limited Partnership (上海久深股權投資基金合夥企業（有限合夥）) ("Jiushen"), an independent third party, pursuant to which Jiushen agreed to subscribe for approximately 1.92% of the enlarged share capital of the Target Company at a consideration of RMB35.55 million. The net proceeds (after deducting relevant transaction costs and expenses) raised from the above transactions expect to be approximately RMB232 million, which will be used to optimise the financial structure of the Company and as marketing and research and development expenses as well as general working capital of the Target Company. Upon completion of the Disposal Transactions, the Target Company will remain as a subsidiary of the Company and its operating results, assets and liabilities will continue to be consolidated in the Company's consolidated financial statements. Details of the disposal transactions were disclosed in the announcement of the Company dated 4 December, 2016.

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

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

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

SHARE AWARD SCHEME

The Board approved and adopted a share award scheme on 26 August 2011 ("Share Award Scheme") as a means of recognising the contributions of selected employees of the Group.

SHARE OPTION SCHEMES

PRE-IPO SHARE OPTION SCHEME

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

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme are 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 30 June 2016, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represented 11.65% of the issued share capital of the Company. However, no additional options have been issued under the Pre-IPO Share Option Scheme since the listing of the Company on the Stock Exchange, and the total outstanding options that has been issued under the Pre-IPO Share Option Scheme is 16,786,530.

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

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was approved and adopted pursuant to a written resolution of all the Shareholders on 3 September 2010 (the "Adoption Date"), which will stay effective for ten years ended at 3 September 2020.

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

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

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue as at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. As at 31 December 2016, 86,141,000 Shares were available for issue under the Share Option Scheme, which represented 5.98% of the issued share capital. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time.

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

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

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

The Board will determine the price per Share upon the exercise of an option according to the terms of the Share Option Scheme, provided that it shall be no lower than the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of the offer of a grant; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of the offer of a grant; and (iii) the nominal value of a share on the date of grant.

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

During the year, 42,420,000 share options were granted and the status of the share options granted up to 31 December 2016 is as follows:

Category of participants	As at 30 June 2016	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2016	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
Directors										
Zhaohua Chang	2,500,000	–	–	–	2,500,000	July 9th, 2010	Jul. 9th, 2010 – Jul. 8th, 2014	Jul. 9th, 2011 – Jul. 8th, 2020	USD0.3062	NA
	13,500,000	–	–	–	13,500,000	January 20th, 2015	Jan. 20th, 2015 – Jan. 19th, 2021	Jan. 20th, 2016 – Jan. 19th, 2025	HKD3.210	HKD3.170
	14,100,000	–	–	–	14,100,000	March 30th, 2016	Mar. 30th, 2016 – Mar. 29th, 2021	Mar. 30th, 2017 – Mar. 29th, 2026	HKD3.482	HKD3.36
In aggregate	**30,100,000**	**–**	**–**	**–**	**30,100,000**					
Consultants										
	1,000,000	–	–	–	1,000,000	May 17th, 2007	May. 17th, 2007 – May.16th 2011	May. 17th, 2008 – May 16th, 2017	USD0.3062	NA
	500,000	–	–	–	500,000	June 14th, 2007	Sep. 24th, 2010 – Sep. 23rd, 2014	Sep. 24th, 2011 – Sep. 23rd, 2020	USD0.3062	NA
In aggregate	**1,500,000**	**–**	**–**	**–**	**1,500,000**					
Employees										
	2,361,180	–	1,914,450	–	446,730	March 2nd, 2007	Mar. 2nd, 2007 – Feb. 14th, 2011	Feb. 15th, 2008 – Jan. 24th, 2017	USD0.275	NA
	1,074,200	–	447,990	5,640	620,570	April 23th, 2007	Apr. 23rd, 2007 – Mar. 1st, 2013	Apr. 23rd, 2007 – Apr. 22nd, 2017	USD0.275	NA
	500,000	–	10,000	–	490,000	June 14th, 2007	Sep. 23rd, 2007 – Sep. 22nd, 2012	Sep. 23rd, 2008 – Sep. 22nd, 2017	USD0.3062	NA
	500,000	–	–	–	500,000	July 25th, 2008	Jul. 25th, 2008 – Jul. 24th, 2012	Jul. 25th, 2009 – Jul. 24th, 2018	USD0.3062	NA
	700,000	–	120,000	–	580,000	July 8th, 2010	Aug. 1st, 2010 – Jul. 31st, 2014	Aug. 1st, 2011 – Jul. 7th, 2020	USD0.3062	NA
	160,500	–	–	–	160,500	July 8th, 2010	Jul. 8th, 2010 – Jul. 7th, 2014	Jul. 8th, 2011 – Jul. 7th, 2020	USD0.3062	NA
	6,398,730	–	–	–	6,398,730	July 9th, 2010	Jul. 9th, 2010 – Jul. 8th, 2014	Jul. 9th, 2011 – Jul. 8th, 2020	USD0.3062	NA
	3,590,000	–	–	–	3,590,000	August 9th, 2010	Aug. 9th, 2010 – Aug. 31st, 2014	Sep. 1st, 2011 – Aug. 8th, 2020	USD0.3062	NA
	500,000	–	350,000	–	150,000	October 17th, 2011	Oct. 17th, 2011 – Dec. 16th, 2018	Oct. 17th, 2012 – Oct. 16th, 2021	HKD4.790	HKD4.790
	562,500	–	187,500	–	375,000	November 1st, 2011	Nov. 1st, 2011 – Oct. 31st, 2017	Nov. 1st, 2012 – Oct. 31st, 2021	HKD4.470	HKD4.470
	7,800,000	–	–	600,000	7,200,000	August 28th, 2012	Aug. 28th, 2018 – Aug. 27th, 2019	Aug. 28th, 2019 – Aug. 27st, 2022	HKD3.350	HKD3.350

Category of participants	As at 30 June 2016	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2016	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
	500,000	–	–	–	500,000	September 7th, 2012	Sep. 7th, 2012 – Sep. 5th, 2017	Sep. 6th, 2013 – Sep. 6th, 2022	HKD3.330	HKD3.330
	446,000	–	100,000	–	346,000	October 22th, 2012	Oct. 22th, 2012 – Oct. 21th, 2019	Oct. 22th, 2013 – Oct. 12th, 2022	HKD4.210	HKD4.210
	8,900,000	–	–	700,000	8,200,000	December 10th, 2012	Dec. 10th, 2012 – Dec. 9th, 2019	Dec 10th, 2019- 9th Dec, 2022	HKD4.600	HKD4.600
	500,000	–	300,000	200,000	–	January 2th, 2013	Jan. 2th, 2013 – Jan. 1st, 2018	Jan. 2th, 2014 – Jan. 1st, 2023	HKD4.230	HKD4.220
	250,000	–	–	–	250,000	August 28th, 2013	Aug. 28th, 2013 – Aug. 27th, 2018	Aug. 28th, 2014 – Aug. 27th, 2023	HKD4.970	HKD4.970
	400,000	–	–	–	400,000	December 9th, 2013	Dec. 9th, 2013 – Dec. 8th, 2017	Dec. 9th, 2014 – Dec. 8th, 2023	HKD5.590	HKD5.400
	500,000	–	–	–	500,000	August 28th, 2014	Aug. 28th, 2014 – Aug. 27th, 2019	Aug. 28th, 2015 – Aug. 27th, 2024	HKD4.718	HKD4.520
	1,700,000	–	200,000	–	1,500,000	January 20th, 2015	Jan. 20th, 2015 – Jan. 19th, 2020	Jan. 20th, 2016 – Jan. 19th, 2025	HKD3.210	HKD3.170
	5,860,000	–	100,000	–	5,760,000	January 20th, 2015	Jan. 20th, 2015 – Jan. 19th, 2020	Jan. 20th, 2016 – Jan. 19th, 2025	HKD3.210	HKD3.170
	6,240,000	–	–	–	6,240,000	January 20th, 2015	Jan. 20th, 2015 – Jan.19th, 2021	Jan. 20th, 2016 – Jan. 19th, 2025	HKD3.210	HKD3.170
	300,000	–	–	–	300,000	June 30th, 2015	Jun. 30th, 2015 – Jun. 29th, 2018	Jun. 30th, 2016 – Jun. 29th, 2025	HKD3.900	HKD3.820
	26,870,000	–	–	1,500,000	25,370,000	March 30th, 2016	Mar. 30th, 2016 – Mar. 29th, 2021	Mar. 30th, 2017 – Mar. 30th, 2026	HKD3.482	HKD3.36
	700,000	–	–	–	700,000	June 27th, 2016	Jun. 27th, 2016 – Jun. 26th, 2021	June. 27th, 2017 – Jun. 27th, 2026	HKD3.850	HKD3.850
	–	750,000	–	–	750,000	September 1st, 2016	Sep. 1st, 2016 – Oct. 31st, 2021	Sep. 1st, 2017 – Sep. 1st, 2026	HKD4.950	HKD4.950
In aggregate	**77,313,110**	**750,000**	**3,729,940**	**3,005,640**	**71,327,530**					
Seller of Dongguan Kewei	2,600,000	–	2,600,000	–	–	Jun 25th, 2012	Jun. 25th, 2016	Jun. 25th, 2016 – Jul. 26th, 2016	HKD3.240	HKD3.190
In aggregate	**2,600,000**	**–**	**2,600,000**	**–**	**–**					
Total	**111,513,110**	**750,000**	**6,329,940**	**3,005,640**	**102,927,530**					

ISSUANCE OF CONVERTIBLE BONDS

On 13 January 2016, the Company issued convertible bonds in the aggregated principal amount of US$65,000,000 to Owap Investment Pte Ltd. wholly owned by Government of Singapore Investment Corp and Erudite Parent Limited ultimately controlled by Carlyle Group L.P.. The convertible bonds bear interest at LIBOR plus 1% annual interest on the outstanding balances with a maturity date of five years (being 13 January 2021), details of which were set forth in the announcements of the Company dated 27 December 2015 and 13 January 2016. The reason for the issuance of convertible bonds is to enhance the working capital and strengthen the capital base and financial position of the Company. The directors of the Company consider that the issuance of convertible bonds is an appropriate means of raising additional and long term capital of the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

Pursuant to the terms and conditions of the convertible bonds, the convertible bonds are convertible into fully paid ordinary shares at the initial conversion price of HK$3.85 per share during the period commencing from the completion date of issuance(being 13 January 2016) and expiring on the close of business on (a)the date which falls five business days prior to the maturity date, or(b)if such bond shall have been called for redemption prior to the maturity date, the close of business on the date which falls five business days prior to the date fixed for redemption thereof. During the Reporting Period, no convertible bonds have been converted into shares. Unless previously redeemed, converted or purchased and cancelled in the circumstances provided in the conditions of the convertible bonds, the Company will redeem the convertible bonds at 100% of their principal amount together with the accrued interest on such bonds for the period from (and including) the last Interest Date to (but excluding) the maturity date. Based on the initial conversion price of HK$3.85 and assuming full conversion of the convertible bonds at the initial conversion price, the convertible bonds will be convertible into approximately 130,844,155 new shares, representing approximately 8.41% of the ordinary share capital enlarged by the issue of new shares of the Company (being 1,555,939,405 shares).

The net proceeds from the issue of the convertible bonds were US$65 million. As at 31 December 2016, the net proceeds from the issue of the convertible bonds were used in for general corporate purposes.

EQUITY-LINKED AGREEMENTS

Other than the convertible bonds and share option scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

DONATION

During the Reporting Period, the Company made donations of approximately US$195,982.

ANNUAL GENERAL MEETING

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

FINAL DIVIDEND

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

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

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

TAX ALLOWANCES

The Company is not aware of any particular tax allowances granted to the Company's shareholders due to their interests in its securities.

CLOSURE OF THE REGISTER OF MEMBERS

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

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

CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report of this Annual Report.

AUDITORS

KPMG has acted as auditors of the Company for the financial year ended 31 December 2016. KPMG has been the auditors of the Company for the past seven years.

KPMG shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re- appointment of KPMG as auditors of the Company will be proposed at the forthcoming AGM.

MISCELLANEOUS

The Company was not aware of any shareholders who had waived or agreed to waive any dividend arrangement for the year ended 31 December 2016.

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

Shanghai, the PRC
29 March 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the financial year ended 31 December 2016.

The Company is committed to maintaining high standards of corporate governance and practices to protect the interests of the shareholders of the Company. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company adopts the principles set out in the Corporate Governance Code and embedding best governance practices throughout the organization.

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

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

THE BOARD/BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company.

All directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to entering into any significant transactions by the abovementioned officers.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all time.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

BOARD COMPOSITION

The Board structure is governed by the Company's Articles of Association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

As at 31 December 2016, the Board comprises eight members, consisting of one executive director, four non-executive directors and three independent non-executive directors.

The list of all Directors, which also specifies the posts, e.g. Chairman, and chairman and member of committees, held by each Director is set out under "Corporate Information" on page 3. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Board of the Company comprises the following Directors:

EXECUTIVE DIRECTOR:

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

NON-EXECUTIVE DIRECTORS:

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen
Ms. Janine Junyuan Feng *(Appointed on 28 March 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Zezhao Hua *(Retired on 27 June 2016)*
Mr. Chunyang Shao *(Appointed on 23 September 2016)*

None of the members of the Board is related to one another.

On 27 June 2016, Mr. Zezhao Hua retired by rotation at the 2015 annual general meeting as an independent non-executive director and did not offer himself for re-election as a director for personal health reasons. He correspondingly ceased to be a member of the Audit Committee and Chairman of the Nomination Committee. Since then the Board comprised one executive director, four non-executive directors and two independent non-executive directors. As a result, the number of independent non-executive directors, the Audit Committee members and Nomination Committee members fell below the minimum number and other relevant requirements under Rule 3.10(1), Rule 3.10A and Rule 3.21 of the Listing Rules and Code Provision A.5.1 of the Corporate Governance Code contained in Appendix 14 of the Listing Rules. On 23 September 2016, the Company appointed Mr. Chunyang Shao as an independent non-executive director, member of the Audit Committee and Chairman of the Nomination Committee, following which the composition of the Board comprised one executive Director, four non-executive Directors and three independent non-executive directors. As a result, the composition of the Board, audit committee and nomination committee of the Company meet with requirements under Rule 3.10(1), Rule 3.10A and Rule 3.21 of the Listing Rules and Code Provision A.5.1 of the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

Saving the period from 27 June 2016 to 23 September 2016 narrated above, throughout the financial year ended 31 December 2016, the Board at all-time met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the Board at all times met the requirement of the Listing Rules in regard of independent non-executive directors to constitute one-third of an issuer's board.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive director to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. In order to oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established three Broad Committees, namely the Audit Committee, the Remuneration Committee and Nomination Committee. The independent non-executive Directors are invited to serve on these three committees.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. Accordingly, each of the independent non-executive director is engaged on an appointment letter for a term of three years and such appointment will continue thereafter unless terminated by either party in one-month's written notice.

In accordance with the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by Shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment/re-election and succession planning of Directors.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Development and financing of Directors is an ongoing process, so that they can perform their duties appropriately. Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

During the year 2016, an in-house seminar was conducted covering the rights and obligations of Directors, especially in information disclosure, inside information, connected transactions, dealing of securities of the Company, compliance of Mode Code, and so on. All Directors attended the seminar.

BOARD MEETINGS

FUNCTIONS

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally has 4 scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company.

BOARD PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Board secretary and the company secretary are responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comments within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

DIRECTORS' ATTENDANCE RECORDS

During the financial year ended 31 December 2016, five Board Meetings were held for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company; an annual general meeting was held for reviewing and approving financial statements, re-election of directors, re-appointment of auditors, etc..

The attendance records of each Director at the Board meetings and the AGM during the term of office as a Director during the year ended 31 December 2016 are set out below:

Name of Director	Attendance/Number of Board meetings held during the term of office of the Director concerned	Attendance/Number of AGM held during the term of office of the Director concerned
Executive Director		
Dr. Zhaohua Chang	5/5	1/1
Non-Executive Directors		
Mr. Norihiro Ashida	5/5	1/1
Mr. Hiroshi Shirafuji	5/5	1/1
Ms. Weiwei Chen	5/5	0/1 Note(1)
Ms. Janine Junyuan Feng *(Appointed on 28 March 2016)*	4/4	1/1
Independent Non-Executive Directors		
Mr. Zezhao Hua *(Retired on 27 June 2016)*	0/1 Note(2)	0/1 Note(2)
Mr. Jonathan H. Chou	5/5	1/1
Dr. Guoen Liu	4/5	1/1
Mr. Chunyang Shao *(Appointed on 23 September 2016)*	1/1	0/0

Note:

(1) Ms. Weiwei Chen did not attend the AGM in person due to other business engagement.

(2) Mr. Zezhao Hua did not attend the AGM and Board meeting held in his tenure in person due to health condition, but he reviewed the documents provided by the Company and appointed proxy for voting at the Board meeting.

Directors reviewed the documents of Board Meetings provided by the Company in advance and appointed proxies for voting in the Board Meetings when they were not available to attend the Board Meetings in person.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

DELEGATION BY THE BOARD

BOARD COMMITTEES

The Board reserves for its decision all major matters of the Company, in terms of approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advices and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Board has delegated a schedule of responsibilities to the President and senior management of the Company. These responsibilities include implementing decisions of the Board, directing and coordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operating and production plans and budgets, and supervising and monitoring the control systems.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request. Aside from the aforesaid three Board committees, the Company has also established two Executive Committees to oversee the day-to-day operations of the Group.

AUDIT COMMITTEE

The Company established an audit committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code.

The Audit Committee comprises three members:

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

Two of the members are independent non-executive Director (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- Review of the financial information of the Group;
- Review of the relationship with and the terms of appointment of the external auditors;
- Review of the Company's financial reporting system, internal control system and risk management system.

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

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

The Audit Committee held 2 meetings during the year ended 31 December 2016. The attendance records of each member at the Audit Committee meetings during the year ended 31 December 2016 are set out below:

Name of members	**Attendance/Number of meetings held during the term of office of the Audit Committee member concerned**
Mr. Jonathan H. Chou *(Chairman)*	2/2
Mr. Norihiro Ashida	2/2
Mr. Zezhao Hua *(Retired on 27 June 2016)*	0/1
Mr. Chunyang Shao (*Appointed on 23 September 2016)*	0/0

Mr. Zezhao Hua did not attend the Audit Committee meeting in person due to health condition, but he reviewed the documents provided by the Company and appointed proxy for voting at the Audit Committee Meeting.

REMUNERATION COMMITTEE

The Company established a remuneration committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code.

The Remuneration Committee comprises three members:

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

Majority of the members are independent non-executive Directors.

The Company has adopted a share option scheme as incentive to directors and eligible employees. Details of the scheme are set out in the section headed "Share Option Scheme" in the Report of the Directors.

The primary objectives of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure of the directors and the senior management and determining the remuneration packages of all executive directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his/her own remuneration, which will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee held 1 meeting during the year ended 31 December 2016. The attendance records of each member at the Remuneration Committee meetings during the year ended 31 December 2016 are set out below:

Name of members	Attendance/Number of meetings held during the term of office of the Remuneration Committee member concerned
Dr. Guoen Liu *(Chairman)*	0/1
Mr. Jonathan H. Chou	1/1
Dr. Zhaohua Chang	1/1

Dr. Guoen Liu appointed proxy for voting at the Remuneration Committee meeting which he did not attend in person due to other business engagement.

NOMINATION COMMITTEE

The Company established a nomination committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code.

The Nomination Committee comprises three members:

Mr. Zezhao Hua *(Chairman) (Retired on 27 June 2016)*
Mr. Chunyang Shao *(Chairman) (Appointed on 23 September 2016)*
Dr. Guoen Liu
Ms. Weiwei Chen

Majority of the members are independent non-executive Director.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

The Company has adopted a Board Diversity Policy which aims to set out the approach to achieve diversity of the Company's Board of Directors. The Company recognizes and embraces the benefits of having a diverse Board and increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

During the financial year ended 31 December 2016, a meeting of Nomination Committee was held. Ms. Weiwei Chen did not attend the meeting in person due to other business engagement, while she appointed Mr. Chunyang Shao as her proxy to vote in the meeting.

The members reviewed the current composition of the Board and discussed the Board restructuring to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the forthcoming AGM of the Company. In accordance with the Company's Articles of Association, Dr. Zhaohua Chang, Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji and Mr. Chunyang Shao shall retire and be eligible to offer themselves for re-election at the forthcoming AGM.

EXECUTIVE COMMITTEE

The Company consists of two geographically distinctive operational business units: Greater China and Inter-Continental respectively managed by Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC").

The CEC comprises six members: Mr. Bo Peng (Chairman of CEC), Mr. Hongbin Sun (Co-chairman of CEC), Mr. Qiyi Luo, Mr. Junder Chiang, Mr. Yimin Xu, and Ms. Chengyun Yue. The majority are heads or Executive Vice Presidents of operational departments.

The IEC comprises seven members: Mr. Jonathan Chen (Chairman of IEC), Mr. Aurelio Sahagun (Co-chairman of IEC), Mr. Hongbin Sun, Mr. Qiyi Luo, Mr Junder Chiang, Mr. Todd Smith, and Mr. Bradley L. Ottinger.

The purpose of CEC and IEC is to oversee the management of the Company relating to routine, administrative, operational and managerial matters that occur between regularly scheduled meetings of the Board and shall provide support to and be responsible to the Board. Subject to the provisions set out in the charter of both CEC and IEC, both committees basically will have and may exercise all the powers and authority granted by the Board in the management of business and affairs of MP Shanghai and MicroPort Orthopedics respectively.

During the year under review, CEC and IEC held meetings periodically and frequently to carry out their duties.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the financial year ended 31 December 2016.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Board has received from the senior management the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

AUDIT COMMITTEE

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee assists the Board by providing an objective nonexecutive review of the effectiveness and efficiency of the internal control, risk management and governance processes of the Group on an annual basis.

The senior manager of the Company's Internal Audit Department attended Audit Committee meetings at the invitation of the committee.

Minutes of each Audit Committee meeting were circulated to all members of Audit Committee for their perusal prior to confirmation of the minutes at the subsequent Audit Committee meeting. Members might request for clarifications or raise comments before the minutes were confirmed. Upon receipt of confirmation from the members at the Audit Committee meetings, the minutes were signed by the Chairman of the meeting as a correct record of the proceedings of the meeting. The minutes of the Audit Committee meetings were also submitted to the Board and for further action of the Board where appropriate.

The activities carried out by the Audit Committee during the year are set out in this Corporate Governance Report on page 57 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness at least once a year through Audit Committee. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, purchasing, financial reporting, human resources, information technology and so on.

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems, including the financial, operational and compliance controls periodically and considered that such systems are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Monitoring procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Company does not have an internal audit function to carry out independent reviews of the adequacy and effectiveness of its risk management and internal control systems. The risk management and internal controls are self-assessed by the management and reviewed by the Board on an on-going basis through Audit Committee. The Company would appoint independent consultancy firm to conduct a thorough review of risk management and internal control systems of the Company and its subsidiaries on regular intervals basis when necessary.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 73 to 78 in this annual report.

For the financial year ended 31 December 2016, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (US$'000)
KPMG	1,001

The audit service performed by KPMG related to the statutory audit of the Group's consolidated financial statements for the financial year ended 31 December 2016.

COMPANY SECRETARY

Ms. Yee Har Susan Lo of Tricor Services Limited, the external service provider, has been engaged by the Company as the Company Secretary since 26 March 2010. The primary contact person at the Company is the Board Secretary of the Company. They are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management. During 2016, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at www.microport.com.cn, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write to the Company at its principal place of business in Hong Kong or China or via the Company's website for any enquiries.

The general meetings of the Company provide a forum and an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available normally at the AGM and other relevant shareholder meetings to answer questions.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting pursuant to the Listing Rules.

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Pursuant to Article 12.3 of the Articles of Association of the Company, an extraordinary general meeting shall be convened on the written requisition of (1) any two or more members of the Company; or (2) a recognized clearing house (or its nominees(s)) deposited at the principal place of business of the Company in Hong Kong (Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) for the attention of the Board or, in the event the Company ceases to have such a principal place of business in Hong Kong, the registered office of the Company (PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands) for the attention of the Board.

The written requisition shall specify the objects of the extraordinary general meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the written requisition not less than one-tenth of the paid up capital of the Company which carries the voting right at general meetings of the Company.

If the Board does not, within 21 days from the date of deposit of the written requisition, proceed duly to convene the extraordinary general meeting to be held within a further 21 days, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them, may convene the extraordinary general meeting in the same manner, as nearly as possible, as that in which extraordinary general meeting may be convened by the Board, provided that any extraordinary general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 1601 Zhangdong Road, Zhangjiang Hi-Tech Park, Shanghai 201203, The People's Republic of China (For the attention of the Board Secretary)
Fax: (86) (21) 50801305
Email: ir@microport.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2016.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the significant changes that have occurred since the end of 2016 to the date of approval of this report.

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

Shanghai, The PRC, 29 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

CORPORATE PROFILE

The Group is a leading medical technology group that develops, manufactures and sells high-end interventional medical devices. We develop and produce an ever-diversifying portfolio of products. Our products are now being used at an average rate of one every 15 seconds in over 5,000 major hospitals of about 80 countries throughout the world, covering a wide spectrum of diseases, including cardiovascular, orthopedics, neurovascular, endovascular, electrophysiological, surgical management, diabetes care and endocrinal management.

MicroPort is determined to become a leading China-based global enterprise capable of providing the best medical devices at affordable prices and globally accessible to as many patients as possible. Our products touch the lives of millions of people every day and we take this important responsibility solemnly. We are proud that MicroPort products always achieve the highest standards of quality and ensure improved health for the patients. We know our products offer hope and relief to many people around the world, and every one of our employees takes personal responsibility to achieve our vision.

ABOUT THIS REPORT

MicroPort Scientific Corporation's Environmental, Social and Governance ("ESG") Report 2016 is prepared in compliance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

MicroPort considers sustainability as a direction for its long-term development. The purpose of the report is not only to communicate our management approaches and performances to our stakeholders, but also to comprehensively introduce our ongoing sustainable development activities that are directed towards the society and environment in which we operate.

REPORTING PERIOD AND SCOPE

This report presents information relevant to ESG performance of MicroPort Scientific Corporation, including its subsidiary in the PRC and US, the related activities and information for the fiscal year, from 1 January 2016 to 31 December 2016.

CEO MESSAGE

DEAR STAKEHOLDERS,

On behalf of the Company, I am proud to present the first ESG report of MicroPort. With our products or services providing a life-changing treatment to a patient every 15 seconds, we always believe that advancements in medical technology can transform and enhance patients' well-being. We are committed to innovate and deliver the best and yet affordable therapeutic solutions in an environmental and socially sustainable way.

We put in efforts to pursue healthcare delivery without sacrificing the environment by reducing water and electricity consumption within the Company. We monitor the product life-cycle by detailed product assurance procedures and a well developed supply chain management system, safeguarding product quality such that the implanted products are safe for the recipient's body.

Providing a safe and enjoyable workplace for our employees is always at the top of our priority list. We treat our employees as if they are our family, aiming to make MicroPort a home away from home. We strive to minimize injuries and accidents in the working environment by optimizing our Environmental, Health and Safety ("EHS") management system. We also encourage our employees to equip themselves with continuous education provided by MicroPort.

Feedback
Your feedback is valuable to help us improve our future reporting. Please direct your feedback and comments to: ir@microport.com.

"We are committed to innovate and deliver the best and yet affordable therapeutic solutions in an environmental and socially sustainable way."

MicroPort believes that contributing to the society is a key to success. Our commitment to social engagement and responsibility is an important aspect of our corporate culture and philosophy. MicroPort works diligently to build strong relationships with all international partners and all stakeholders because as a corporation, we think our community is an essential part of our business, and we strive to help in the best ways we can. As part of our commitment to social responsibility, we maintain integrity in the marketplace, by establishing comprehensive policies to comply with laws and regulations at all business locations. We also care about the local communities where our employees live and work, and strive to contribute through financial support as well as volunteer activities our employees undertake.

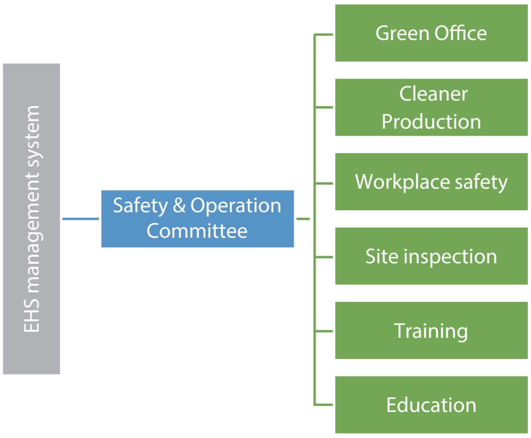
I am grateful for the support and trust from the patients and all our stakeholders. 2016 has been a fruitful year for MicroPort and in the future, we will continue to provide innovative products to improve our patients' life quality.

By Order of the Board
Dr. Zhaohua Chang
Chairman

Shanghai, 29 March, 2017

ESG MANAGEMENT APPROACH

The Company has established a comprehensive EHS management system across the organization, which is primarily managed by the Safety & Operation Committee, which is responsible for environmental management, maintaining production safety, and occupational health training.



For environment, the Safety & Operation Committee promotes green office measures and implements the cleaner production project. The Company aims to increase the efficiency in using resources and energy and reduce environmental impacts. For health and safety, the Safety & Operation Committee implements occupational safety policy in compliance with relevant laws and regulations, and increases employees' awareness through training and campaign, creating a sound and safe working environment.

The Company relies on support from key stakeholders, such as employees, customers and shareholders and actively engages with them for ensuring success. Our customer service center acts as a grievance channel to improve our service continuously, handling complaints from customers worldwide through our online system.

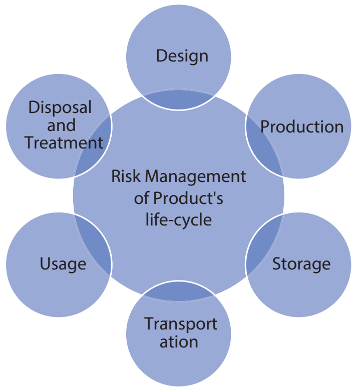
The Company aims at maintaining effective communication with shareholders, by helping them to understand the Company's business performance and strategies. We hope to enable them to make rational investment decisions. Apart from transparent and timely disclosure of corporate information in accordance with the Listing Rules, the Company has maintained communication with shareholders through the Company's website, Wechat platform, shareholders' hotline and IR mailbox. We also welcome shareholders to undertake site visits and one-on-one meetings, sharing their opinions and concerns.

PRODUCT EXCELLENCE

MicroPort always puts patients as its first priority. We are aware of the potential environmental, health and safety impact generated by our products and, therefore, we remain vigilant about product quality. Our quality and regulatory affairs department monitors our products' quality and strives for excellence at all stages of the product's life-cycle.

QUALITY ASSURANCE

MicroPort provides medical devices for patients that may stay in the patient's body with minimal risks. We monitor and ensure all products receive material certification, in compliance with relevant laws and regulations. Our laboratory in Shanghai and orthopedic laboratory in Tennessee are accredited with ISO 9001[1] and ISO 13485[2] and our Shanghai laboratory is also certified by CNAS[3], in accordance with ISO/IEC 17025[4]. Our laboratories verify composition and quality of raw materials to ensure no hazardous substance is used for production, as well as ensuring the consistency of producing high quality products. In 2016, there were no cases of product recalls due to health and safety reasons.



MicroPort takes precautionary actions at early stages, at the product design stage itself, under a Risk Management Process. The process is completed throughout the Design Control process and the whole R&D process is divided into different stages, where each hazard or harm associated to the product is evaluated at all stages. We also monitor potential risks throughout the product's life-cycle to examine all concerns on health and safety and initiate necessary actions to minimise its risks.

In 2016, the Company continued to monitor product quality stringently and improve the quality control system. We aim to develop a highly sustainable and automated system, to achieve high efficiency at low cost. During the year, our quality system has conducted over 50 external audits by organisations from all over the world and we have passed all of the audits. In addition, customer survey is conducted every year to engage our customers in improving the quality system and the results are compiled and presented at Quality Management Review.

We understand that providing regular training to employees is essential to maintain product quality. While we organise a "Quality Month" in China, raising employees' awareness about quality assurance, we also provide Quality System Requirements Training to employees in Arlington, TN every year. Our employees are expected to react to any non-conforming process and segregate the processes as per the Material Review Board Process.

1 ISO 9001 sets out the framework for a quality management system.

2 Requirements issued by international organization for standardization for a comprehensive quality management system for the design and manufacture of medical devices.

3 China National Accreditation Service for Conformity Assessment.

4 General requirements for the competence of testing and calibration laboratories – A standard issued by International Organization for Standardization for testing and calibration of laboratories.

SUPPLY CHAIN MANAGEMENT

MicroPort is committed to building partnerships with its suppliers and contributing to sustainable development of the industry and the society. We engage with our 43 suppliers in China, 13 suppliers in the US and 10 in the rest of the world through long-term agreements and regular communication to help them better understand and meet to our updated requirements. We select our suppliers strictly according to Good Manufacturing Practices. Suppliers are required to conduct regular audit checks to ensure the quality of raw materials is up to standards.

We have established a purchasing procedure, listing detailed requirements and procedures for purchasing raw materials. Our purchasing engineers review potential suppliers and all suppliers must satisfy the qualification requirements as per policy and purchasing procedures. We evaluate our suppliers quarterly for acceptance rate and on-time delivery. Their performance is also reviewed by Purchasing and Quality with corrective and preventive actions initiated when needed. In order to manage our suppliers better, we keep our suppliers' information in the SAP[5] system.

INTEGRITY IN MARKETPLACE

MicroPort is striving to become a patient-oriented global enterprise; we believe integrity is the bridge that connects MicroPort and the patients. We consider honesty and credibility as our principles for enduring success of our business.

We have established a Code of Business Conduct for our employees and expect them to comply with the relevant laws and regulations. The Code of Business Conduct also helps the employees to understand our policies and maintain integrity and accountability of the Company. MicroPort obligates every employee to place integrity at the center of every conscious action. We have established ethical frameworks intended to provide directions for recognizing and managing circumstances that could result in immorality.

We consider accountability as one of the important components of a trustworthy business organisation, requiring our employees to be accountable to the public and insist upon the highest standards in every aspect. We are determined in our endeavour to build on the respect we have gained and the value of our Company as an outstanding enterprise. We are confident that we shall be able to be accountable to all our stakeholders and that would be at the heart of our business.

INTELLECTUAL PROPERTY RIGHTS

Intellectual Property is a precious asset to MicroPort. Our R&D team has developed a strong R&D capability and is accumulating intellectual property to reinforce our business. We strive to protect our researchers and engineers, for their innovations and inspirational ideas. In 2016, we have applied for 170 patents, adding up to 1,807 owned and applied patents across 26 countries. We have also identified 9 core private intellectual properties during the year. In addition, we have obtained 82 trademarks during the year, adding up to 941 trademarks in total, covering 64 countries around the world. During the year, there was no reported incident of violation of intellectual property rights.

[5] Systems Application and Products in Data Processing

ANTI-CORRUPTION

MicroPort makes efforts to put an end to corruption in the Company. We have established an Employee Anti-Corruption Regulation, which complies with laws and regulations in both the US and China, and aims to build an ethical and responsible corporate body. Being a charitable enterprise, it is inevitable to be involved in community activities that apparently have a political hue. The Company prohibits use of all forms of funds or assets as resources for political contributions. The Company provides clear guidelines and provides new hires training to all Company Representatives to make ethically sound business decisions which include identifying and managing activities that may facilitate improper payments. During the year, there was no reported incident of corruption concerning the Company and our employees.

PRIVACY POLICY

As our business provide services related to patients' health conditions, we are committed to protect confidential health information of our patients, which includes all individually identifiable information relating to 1) an individual's past, present, or future physical or mental health or condition; 2) the provision of health care to an individual; or 3) payment for providing health care to an individual. In addition to protecting our patients, we strictly comply with laws and regulations on confidentiality or proprietary information from our customers or suppliers. We have established comprehensive policies to minimize the risk of confidential information leakage; disclosure of confidential information in any form is prohibited.

ADVERTISING AND PROMOTION

Advertising and promotional campaigns create the first impression of our products and represent the Company and, therefore, we require all advertisements to be truthful and consistent with the Company's values. To ensure advertisements and product claims comply with the Company's policies prior to being disseminated, the contents are first reviewed by our risk management functional areas, e.g. Regulatory and Legal Department.

ENVIRONMENT

The Company is dedicated to creating an environment friendly and sustainable business. The major environmental impact is generated within the Company's properties and manufacturing facilities. The use of raw materials, electricity, gas, paper and waste generation are the main environmental impacts created by our business operations. We have a set of environmental management procedures, to make sure that the Company's operations comply with the "Environmental Law of the People Republic of China" and other laws and regulations of the countries where we do business. In 2016, there were no significant fines or non-monetary sanctions for non-compliance of environmental laws.

As for new development projects, we strictly comply with the local environmental regulations. We begin the construction only after the Environmental Impact Assessment of the project is approved by the Environmental Department of the Government. In addition, we invest in green technologies to reduce our impacts on the environmental, through more efficient use of resources and equipment. This includes upgradation of our lighting and air-conditioning systems.

Cleaner Production Audit

The Company encourages its subsidiaries to conduct Cleaner Production Audit, and our production base in Shanghai has received the acceptance of the audit in 2015. It has set up and will continuously optimize the cleaner production management system. A continuous plan has also been developed, which clarifies the measure of audit, tracking, and the next audit schedule. The requirements of cleaner production are applied to the daily operations process, and it helps us to achieve continuous cleaner production.

CLEANER PRODUCTION

The Company believes it is obliged to promote sustainability through implementing Cleaner Production Audit. During the auditing process, MicroPort aims to identify any flaws in energy consumption and pollutant emissions, so as to establish a comprehensive policy for cleaner production. We are committed to maintain the amount of emissions well below the permitted standards by technology enhancement and gradually decrease total emissions to promote sustainable development.

A dedicated Clean Production Unit is established specifically to manage improvement processes during the production. The unit is composed of representatives of different departments and they work together to improve energy efficiency, aiming to create a synergy in producing cleaner products. The dedicated Clean Production Unit is in charge of raising environmental awareness by organizing workshops and setting up exhibition boards. The unit understands that a systematic environmental management system is important to ensure the stability of clean production and, therefore, the unit is planning to implement an environmental system in accordance with ISO 14001[6] in the coming year.

Raising Awareness

To increase employees' awareness of environmental protection, the Company implements the "Environmental and Sanitation Regulation". We also implement various measures to promote a greener company, such as sharing and dissemination of green tips, putting up posters and banning smoking etc. The Company also encourages phone conferences, which greatly reduces emissions caused by travelling and enhances operational efficiency. To reduce the use of paper, the Company has implemented paperless internal communication and encourages employees to reduce the use of paper, aiming to create a paperless business environment.

ENERGY CONSERVATION

To further reduce our carbon footprint, we have appraised our production process and targeted to reduce energy consumption during the production process by 15% by 2017. In 2016, we optimized the air-conditioning system at our headquarters, where the system accounts for almost one third of total energy consumption. We also conduct continuous lighting retrofits and drives replacement. In our US base, we are currently exploring to install LED lighting throughout the plant.

As for the energy conservation in office, we have developed an operating regulation for the central air conditioning system, and set the temperature according to national administration of energy saving. The Company has appointed an officer to monitor the measures of energy conservation. The office uses natural light as much as possible. To reduce electricity consumption, air conditioning, personal computers, printers and other electric equipment are shut instantly after use.

We emphasize water conservation. The production base in Shanghai has optimized the production process, and reduced water consumption by 960 tonnes annually. The Microport Orthopedics in U.S. has also installed low flow faucets throughout the campus to reduce the water consumption.

MANAGEMENT OF EMISSION

The emission incurred during the operation of the Group mainly consist of waste water, waste gas and solid waste. We strictly follow the laws and regulations in related to the emission of waste, and have formulated effective process for the treatment of emission. The Company has installed sewage treatment facilities at each production site, for handling wastewater from employees' canteen, boilers, etc. The treated wastewater meets requirements of government prescribed discharge standards before discharging into the city pipe network. We exhaust the process waste gas incurred during the our manufacturing and researching through exhaust pipe after collecting and filtered by active carbon, which is in compliance with the relevant emission standard requirements. In respect of the solid waste, we have engaged accredited service providers to handle hazardous waste and non-hazardous waste to ensure the collection, delivery and dispose of solid waste meet the requirements of environment laws.

6 Framework that sets out an Environmental Management System

EMPLOYEE CARE

"Caring for and growth with the employees" is the core value of the Company's human resource strategy. In addition to complying with labour laws and regulations, we have implemented different measures for our employees, such as the "labour contract management system", "remuneration and welfare system", "training and development system" etc., where all rights of employees are listed clearly in the Employee Manual.

EMPLOYMENT PRACTICE

The Company is an equal opportunity employer and does not discriminate against a qualified employee or applicants on the grounds of race, gender, age, etc. We respect the rights and freedom of our employees, and hence we aim to create a working atmosphere free from harassment, violence and discrimination of any kind. In 2016, we received no report related to discrimination or harassment in our workplace. Our Company does not allow employment of child labour and forced labour. Our human resource department performs identity check in the recruitment process, preventing any form of illegal employment. We did not receive any report related to child labour and forced labour in 2016.

As of 31st December 2016, the Company and its subsidiaries had a total of 2,969 employees worldwide. Our research and development department has around 400 researchers and technicians, and they are responsible for developing and producing competitive new products.

OCCUPATIONAL HEALTH AND SAFETY

As a research-based production enterprise, production safety is our social responsibility and the key concern of our work. Our occupational health and safety system is in the charge of the Safety & Operation Committee. The Safety & Operation Committee is responsible for compliance of relevant laws and regulations regarding production safety, maintaining a safe working environment and promoting the culture of production safety, and setting up preventive plans for occupational diseases, including monitoring and reporting. The Company has also set up an emergency response team in each of the production unit, responsible for first aid and evacuation in emergency events.

We have set up various safety regulations according to the relevant laws and regulations, such as the "occupational health and safety regulation", "chemistry laboratory operation handbook" etc. We perform site checking every week, to eliminate the potential risks at site. Both PRC and U.S. operations have complied with all relevant laws and regulations relating to safe working environment and occupational hazards. In 2016. there was no report of fatalities, serious workplace injuries and occupational diseases. There were 17 site inspections conducted by different government departments, and all our facilities were found to have met the required standards. The Company also strictly complies with the "Safe Production Law of the People's Republic of China", there was no report of any serious production safety problem in 2016.

To ensure the safety of our employees, we distribute personal protective equipment such as protective mask and respirator to employees handling hazardous chemicals. Furthermore, we have set up an "Equipment Management System", regulating the procurement, use, maintenance and disposal of our production equipment, to ensure all the equipment are in good condition and safe to use in production.

For hazardous chemicals, we have a "Hazardous Chemicals Management System", which divides the hazardous chemicals into different categories, and mandates separate storage. Under the system, the storage and destruction of hazardous chemicals needs to be recorded, and only employees wearing protective equipment and with permission can use them. The hazardous chemicals waste is strictly separated from general waste and the Company assigns qualified collectors to handle and dispose the hazardous waste.

SAFETY TRAINING

All new employees must receive three levels of safe production training. The first level is provided by the Safety & Operation Committee and human resource department, in which the education is about the national policy and regulations regarding production safety. The second level is provided by the factory, in which the education is about the production procedures, first aid training, potential hazards and related prevention measures, such as prevention of fire, explosion, poison etc. The third level is provided by the team leader, regarding safe operations procedures and notes.

The Company has also implemented a "Four New" training system, in which before applying new craft, new materials, new technology or new equipment, the employees involved must receive safety training beforehand.

For occupational health training, we provide induction health education and on job health training. The core of the health education is to increase the employees' understanding of the national occupational health policy, target and regulations. The education program also covers knowledge regarding occupational hazard, personal hygiene and other general health information.

In 2016, the Company invited external trainers from different government departments and professional companies to provide EHS training, over 150 employees received EHS training this year. Furthermore, to ensure the employees are able to perform according to the safety standards, we provided hazardous materials handling training and pressure equipment training to relevant staffs.

TRAINING AND DEVELOPMENT

As the Company develops and sells high technology interventional medical devices, we recognise the importance of updating the employees with the latest medical related knowledge. The Company provides four kinds of training programs to the employees, including induction training, on job training, management skills training and external training. MicroPort ensures quality of its training programs by reviewing the program content as well as the quality of the tutors regularly. In 2016, we organised more than 150 training events and provided more than 13,000 hours of training to our employees. MicroPort encourages continuous education by subsidising employees who pursue education relevant to his/her position outside the Company.

In US, the Company has developed a comprehensive learning management system for employees. Apart from compulsory compliance training for new hires, the system provides about 250 elective courses for the employees to choose from, which equips them to develop desirable career paths.

In order to improve the Company's human resource management system, we carry out four appraisals each year, and the result is used as a reference to decide promotion, improve training programs and review of the remuneration package.

EMPLOYEES WELFARE

To attract talents, we provide long term incentive plans and stock options. The Company has implemented employee care programs which include assistance for the Shanghai Residence Permit application, annual health check, etc. and we are constantly striving to create an environment ingrained with employee care as a major concern. We also provide amenities such as library, nursery room for female employees, gym room and club house to build an enjoyable occupational environment. Other than that, the Company organises "Friday Talk" every week, to promote cultural exchanges between employees.

COMMUNITY INVOLVEMENT

MicroPort puts in efforts to provide patients and the public a healthy community. We believe that knowledge is indispensable for a better society, we want to contribute to educating the next generation, as well as the ones in need around the local communities where we have operations.

We have established two MicroPort Hope Primary Schools in Wulian, Shandong and Chishui, Guizhou in 2010 and 2013, respectively, empowering underprivileged children. Students intake of these schools is more than 500. We have been visiting the students regularly to provide emotional care and financial support, aiming to build a carefree, joyful childhood for the children. We have also set up scholarships to provide aid to students who are eager to learn but are financially challenged. In China, we have established the MicroPort Aspiration & Encouragement Scholarship Fund for the College of Medical Instruments at the University of Shanghai for Science and Technology, cultivating talents in the industry. We also offer various scholarships to universities in other parts of China and the US.

In addition to offering financial support, we encourage our employees to serve the local communities. We have organised a volunteer team to engage our employees in contributing to the community; the volunteer team actively participates in community services such as visiting homes for the elderly and blood donation. In the US, our employees work closely with local schools and organisations, such as participating in Arlington High School Leadership Development program, guiding the teenagers in leadership development and participating in tournaments held by charities.

Independent auditor's report to the shareholders of MicroPort Scientific Corporation
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of MicroPort Scientific Corporation ("the Company") and its subsidiaries ("the Group") set out on pages 79 to 180 which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 105.

The Key Audit Matter

The Group recognises revenue from the sale of medical devices when the risks and rewards of ownership of the goods are considered to have passed to the customer. The actual point in time when revenue is recognised varies depending on the specific terms and conditions of the sales contracts entered into with customers.

The Group has many customers operating in different segments and sales contracts with customers have a variety of different terms relating to the recognition of revenue, the entitlement to sales rebates and the right of return of the goods sold by the Group.

Sales rebates are primarily volume based and are recognised when the performance conditions associated with them are met.

Sales returns are recognised based on the historical return rate estimated for each individual segment.

The calculation of sales rebates and sales return require certain management judgments and estimations in determining the amounts to which the Group is obligated. Sales rebates and sales returns are accounted for as a deduction from revenue.

We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations and because the variety of different terms of sale may affect the timing of the recognition of revenue and because significant management judgement can be required to estimate sales rebates and sales returns.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition and management's review of the calculation of and provisions for sales rebates and sales returns;

- inspecting, on a sample basis, key customer contracts to identify terms and conditions relating to goods acceptance, sales rebates and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

- selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including purchase volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data in the computer system records) to assess whether the methodology adopted in the calculation of the sales rebate was in accordance with the terms and conditions defined in the corresponding customer contract;

- comparing the actual sales rebates and sales returns recorded after the financial year end with the sales rebate and sales return provisions made by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate and sales return provisions and to assess if the related adjustments to revenue had been made in the appropriate financial period;

- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and

- inspecting underlying documentation for journal entries relating to revenue which were considered to be material or met other specific risk-based criteria.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of intangible assets and goodwill

Refer to note 12 to the consolidated financial statements and the accounting policies on pages 97 to 98.

The Key Audit Matter	How the matter was addressed in our audit
The carrying values of the Group's intangible assets and goodwill as at 31 December 2016 were US$68 million and US$54 million, respectively. Goodwill arose from the acquisition of the OrthoRecon business of Wright Medical Group, Inc. in 2014 and has been allocated to the Orthopedics Segment. Intangible assets principally comprise technology, product licenses, customer relationships and capitalised development costs, which have been allocated to various segments. Management performs annual impairment assessments of the Group's goodwill and intangible assets that are not yet available for use by comparing the carrying values of these assets with their recoverable amounts, which are assessed using the value in use method by preparing discounted cash flow forecasts for each separately identifiable cash-generating unit ("CGU") to which the assets have been allocated. The preparation of discounted cash flow forecasts involves the exercise of significant management judgment, in particular in assessing future revenue growth, future gross margins, future capital expenditure and working capital movements and in determining the long-term growth rate and appropriate discount rates. We identified the assessment of potential impairment of intangible assets and goodwill as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of intangible assets and goodwill included the following: • evaluating management's identification of CGUs and the allocation of intangible assets and goodwill to each CGU and assessing the methodology adopted by management in its impairment assessments with reference to the requirements of the prevailing accounting standards; • evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing data in the discounted cash flow forecasts with the relevant data, including forecast revenue, forecast cost of sales and forecast operating expenses, in the financial budgets which was approved by the board of directors and with available industry statistics; • comparing the data in discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • engaging our internal valuation specialists to assist us in comparing the long term growth rates and discount rates applied in the discounted cash flow forecasts with those of comparable companies and external market data; • performing a sensitivity analysis of key assumptions, including future revenue growth rates, future gross margins and the discount rates applied in the discounted cash flow forecasts and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias in the selection of these key assumptions; and • considering the disclosures in the consolidated financial statements in respect of management's impairment assessments of intangible assets and goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fung, Ping Kwong.

KPMG
Certified Public Accountants

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

29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

The notes on pages 87 to 180 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

The notes on pages 87 to 180 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2016 US$'000	31 December 2015 US$'000
Non-current assets			
Investment properties	*10*	**5,720**	–
Other property, plant and equipment	*10*	**248,885**	253,792
Land use rights	*10*	**15,638**	17,411
		270,243	271,203
Intangible assets	*11*	**68,152**	60,217
Prepayments for non-current assets		**2,010**	2,711
Goodwill	*12*	**54,458**	55,463
Interest in an associate	*14*	**11,432**	–
Interest in a joint venture	*15*	**676**	4,759
Available-for-sale securities	*17*	**2,000**	–
Deferred tax assets	*26(b)*	**4,739**	3,711
Other non-current assets	*18*	**3,364**	4,339
		417,074	402,403
Current assets			
Inventories	*19*	**100,863**	101,840
Trade and other receivables	*20*	**128,752**	126,957
Pledged deposits and time deposits	*21*	**668**	2,976
Cash and cash equivalents	*22*	**123,694**	99,467
Derivative financial assets	*16*	**3,499**	–
		357,476	331,240
Current liabilities			
Trade and other payables	*23*	**96,858**	99,423
Interest-bearing borrowings	*24*	**108,456**	55,086
Income tax payable	*26(a)*	**4,621**	1,226
Derivative financial liabilities		**23**	397
Obligations under finance leases	*29*	**81**	1,209
Other current liabilities	*25*	**–**	7,260
		210,039	164,601
Net current assets		**147,437**	166,639
Total assets less current liabilities		**564,511**	569,042

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2016 US$'000	31 December 2015 US$'000
Non-current liabilities			
Interest-bearing borrowings	*24*	**40,085**	129,374
Convertible bonds	*28*	**147,769**	94,815
Deferred income	*27*	**24,231**	22,086
Other financial liabilities		**2,664**	1,574
Deferred tax liabilities	*26(b)*	**3,283**	3,365
		218,032	251,214
NET ASSETS		**346,479**	317,828
CAPITAL AND RESERVES			
Share capital	*31(c)*	**14**	14
Reserves		**332,895**	312,505
Total equity attributable to equity shareholders of the Company		**332,909**	312,519
Non-controlling interests		**13,570**	5,309
TOTAL EQUITY		**346,479**	317,828

Approved and authorised for issue by the board of directors on 29 March 2017.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 87 to 180 form part of these financial statements.

	Note	Attributable to equity shareholders of the Company								
		Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2015		14	239,433	26,789	17,182	20,470	38,365	342,253	1,490	343,743
Changes in equity for 2015:										
(Loss)/profit for the year		–	–	–	–	–	(12,086)	(12,086)	707	(11,379)
Other comprehensive income		–	–	(25,834)	–	–	–	(25,834)	(113)	(25,947)
Total comprehensive income		–	–	(25,834)	–	–	(12,086)	(37,920)	594	(37,326)
Capital contribution from non-controlling interests		–	–	–	4,622	–	–	4,622	3,548	8,170
Equity-settled share-based transactions	*30*	–	–	–	2,448	–	–	2,448	–	2,448
Appropriation of statutory general reserve		–	–	–	–	645	(645)	–	–	–
Shares issued under share option scheme	*31(c)(iii)*	–	2,421	–	(1,068)	–	–	1,353	–	1,353
Shares purchased under share award scheme	*30(b)*	–	–	–	(2,441)	–	–	(2,441)	–	(2,441)
Shares granted under share award scheme	*30(b)*	–	–	–	2,204	–	–	2,204	–	2,204
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	(323)	(323)
Balance at 31 December 2015		14	241,854	955	22,947	21,115	25,634	312,519	5,309	317,828

The notes on pages 87 to 180 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Attributable to equity shareholders of the Company								
		Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2016		14	241,854	955	22,947	21,115	25,634	312,519	5,309	317,828
Changes in equity for 2016:										
Profit for the year		–	–	–	–	–	14,141	14,141	928	15,069
Other comprehensive income		–	–	(29,075)	–	–	–	(29,075)	(509)	(29,584)
Total comprehensive income		–	–	(29,075)	–	–	14,141	(14,934)	419	(14,515)
Capital contribution from non-controlling interests	*30(c) & 32*	–	–	–	13,109	–	–	13,109	8,514	21,623
Transfer between reserves		–	–	–	(4,845)	–	4,845	–	–	–
Equity-settled share-based transactions	*30*	–	–	–	2,795	–	–	2,795	–	2,795
Equity component of convertible bonds	*28*	–	–	–	17,485	–	–	17,485	–	17,485
Appropriation of statutory general reserve		–	–	–	–	775	(775)	–	–	–
Shares issued under share option scheme	*31(c)(iii)*	–	4,604	–	(1,718)	–	–	2,886	–	2,886
Shares purchased under share award scheme	*30(b)*	–	–	–	(5,774)	–	–	(5,774)	–	(5,774)
Shares issued under the settlement of other current liabilities	*25*	–	1,973	–	–	–	–	1,973	–	1,973
Shares granted under share award scheme	*30(b)*	–	–	–	2,850	–	–	2,850	–	2,850
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	(672)	(672)
Balance at 31 December 2016		14	248,431	(28,120)	46,849	21,890	43,845	332,909	13,570	346,479

The notes on pages 87 to 180 form part of these financial statements.

	Note	2016 US$'000	2015 US$'000
Operating activities			
Cash generated from operations	*22(b)*	**89,875**	36,132
Tax paid:			
– The People's Republic of China ("PRC") income tax paid		**(5,933)**	(3,859)
– Non-PRC income tax paid		**(1,408)**	(1,553)
Net cash generated from operating activities		**82,534**	30,720
Investing activities			
Payments for the purchase of property, plant and equipment		**(49,866)**	(36,565)
Proceeds from sale of property, plant and equipment		**2,060**	1,538
Payments for intangible assets		**(15,821)**	(10,437)
Placement of deposits with banks with original maturities over three months		**–**	(482)
Uplift of deposits with banks with original maturities over three months		**482**	26,502
Decrease in pledged deposits		**1,826**	43,123
Interest received		**843**	3,351
Payments for the investment in convertible bonds	*16*	**(10,000)**	–
Payments for the investment in an associate	*14*	**(5,000)**	–
Payments for acquisition of an available-for-sale securities	*17*	**(2,000)**	–
Net payments for the settlement of other current liabilities	*25*	**(5,335)**	–
Payments for capital contribution to a joint venture		**–**	(5,064)
Loans to a joint venture		**(4,359)**	–
Loans repaid by a joint venture		**4,359**	–
Net cash (used in)/generated from investing activities		**(82,811)**	21,966

The notes on pages 87 to 180 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

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

	Note	2016 US$'000	2015 US$'000
Financing activities			
Repayments of the Otsuka Loans		–	(160,000)
Net proceeds from the issuance of convertible bonds	28	**64,837**	–
Proceeds from other interest-bearing borrowings, net of transaction costs		**18,028**	123,107
Advance received from disposal of partial equity interests in a subsidiary		–	2,730
Capital contributions from non-controlling interests		**14,914**	8,170
Repayments of other interest-bearing borrowings		**(57,000)**	(128,786)
Proceeds from shares issued under the share option scheme	*31(c)(iii)*	**2,886**	1,353
Interest paid for the Otsuka Loans	*24(b)*	**(673)**	(1,631)
Interest paid for the convertible bonds	*28*	**(3,113)**	(1,422)
Interest paid for other interest-bearing borrowings		**(4,297)**	(4,435)
Payment for finance leases		**(676)**	(1,597)
Payment for repurchase of shares under share award scheme	*30(b)*	**(5,774)**	(2,441)
Dividends paid to holders of non-controlling interests		**(995)**	–
Net cash generated from/(used in) financing activities		**28,137**	(164,952)
Net increase/(decrease) in cash and cash equivalents		**27,860**	(112,266)
Cash and cash equivalents at 1 January		**99,467**	215,602
Effect of foreign exchange rate changes		**(3,633)**	(3,869)
Cash and cash equivalents at 31 December	*22(a)*	**123,694**	99,467

The notes on pages 87 to 180 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

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

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

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

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

In the Company's statement of financial position, investments in an associate and joint venture are stated at cost less impairment losses (see note 1(m)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, an associate and a joint venture, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(x)(iii) and 1(x)(iv).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(x)(iii) and 1(x)(iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(m)). Depreciation is calculated to write off the cost of investment property less its estimated residual value using the straight line method over its estimated useful life. Rental income from investment properties is accounted for as described in note 1(x)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis.

(j) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Freehold land is not depreciated;
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;
- Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 5 to 10 years from the date of completion, and

– Equipment and machinery	10 years
– Office equipment, furniture and fixtures	3 to 10 years
– Motor vehicles	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Technologies	9 to 17 years
– Products licences	12 to 17 years
– Capitalised development costs	5 to 10 years
– Customer contracts and related customer relationship	1.5 to 10 years
– Trademark and others	35 months to 20 years

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(i)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(i)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in an associate and a joint venture accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- investment property;
- other property, plant and equipment;
- land use rights;
- intangible assets;
- goodwill;
- investment in an associate and joint venture; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other asset, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and 1(m)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Convertible notes issued

(i) Convertible notes issued that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible notes issued

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 1(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 1(h). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Convertible notes issued (continued)

(ii) Other convertible notes issued (continued)

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Repurchase and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is deducted from equity attributable to the Company's equity holders. Repurchased shares held at the end of reporting period are classified as treasury shares and are presented as a decrease in the capital reserve. When treasury shares are sold or reissued subsequently, the consideration received, net of any directly attributable transaction costs, is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in capital reserve.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the equity-settled share-based payment awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity-settled share-based payment awards, the total estimated fair value of the equity-settled share-based payment awards is spread over the vesting period, taking into account the probability that the equity-settled share-based payment awards will vest.

During the vesting period, the number of equity-settled share-based payment awards that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity-settled share-based payment awards that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the equity-settled share-based payment awards is exercised (when it is included in the amount recognised in share capital for the share issued) or the equity-settled share-based payment awards expires (when it is released directly to retained profits).

The fair value of the amount payable to employees in respect of the long term incentive awards, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at grant date and at the end of each reporting date after taking into account all vesting and non-vesting conditions, including service conditions and non-market performance conditions.

Share-based payment transactions in which the Company grants share based payment awards to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's financial position which is eliminated on consolidation.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(w)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(w)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(w)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

The Group recognises revenue when the customer takes ownership and assumes risk of loss of the goods. The actual point in time when revenue is recognised varies depending on the specific terms and conditions of the sales contracts entered into with customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts, sales rebates and sales returns.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into United States dollars ("US$") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into US$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 11, 12, 30 and 33 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Management reassesses these estimations at the balance sheet dates to ensure inventory is shown at the lower of cost and net realisable value.

(b) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. Intangible assets are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Impairment of assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years.

Goodwill and intangible assets not yet available for use are tested for impairment at least annually even if there is no indication of impairment.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue by major category is as follows:

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

For the years ended 31 December 2016 and 2015, there was no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 33(a).

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

(b) Segment reporting

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

- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.

- Cardiovascular devices business: sales, manufacture, research and development of cardiovascular devices, such as drug eluting stents.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

- Endovascular devices business: sales, manufacture, research and development of endovascular devices.
- Electrophysiology devices business: sales, manufacture, research and development of electrophysiology devices.
- Neurovascular devices business: sales, manufacture, research and development of neurovascular devices.
- Surgical management business: sales, manufacture, research and development of surgical devices.
- Diabetes care and endocrinal management business: sales, manufacture, research and development of devices related to diabetes mellitus.

(i) Segment results, assets and liabilities

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

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

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

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

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

3. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

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

3. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2016 US$'000	2015 US$'000
Profit or loss		
Reportable segment net profit/(loss)	31,075	(4,051)
Equity-settled share-based payment expenses	(2,795)	(2,448)
Unallocated exchange gain	6,270	3,444
Unallocated income and expenses	(19,481)	(8,324)
Consolidated profit/(loss) for the year	15,069	(11,379)
Assets		
Reportable segment assets	805,344	851,639
Elimination of inter-segment receivables	(85,131)	(127,583)
	720,213	724,056
Unallocated corporate assets:		
– Cash and cash equivalents	54,278	8,801
– Others	59	786
	54,337	9,587
Consolidated total assets	774,550	733,643
Liabilities		
Reportable segment liabilities	281,502	302,926
Elimination of inter-segment payables	(85,131)	(127,583)
Deferred tax liabilities (note 26(b))	1,855	1,981
Convertible bonds (note 28)	147,769	94,815
Derivative financial liabilities (note 24(b))	23	397
Interest-bearing borrowings	80,355	134,196
Unallocated corporate liabilities	1,698	9,083
Consolidated total liabilities	428,071	415,815

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographic information

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

Revenue from external customers

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

Specified non-current assets

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

4 OTHER REVENUE AND NET INCOME

	2016 US$'000	2015 US$'000
Other revenue		
Government grants (note)	12,448	11,218
Interest income on bank deposits	843	1,003
Interest income on the convertible bonds (note 16)	42	–
	13,333	12,221

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

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

	2016 US$'000	2015 US$'000
Other net income		
Net loss on disposal of property, plant and equipment	(560)	(718)
Net foreign exchange gain	6,733	4,254
Changes in fair value of embedded financial derivatives (notes 16 and 24(b))	263	195
Others	908	(427)
	7,344	3,304

5 PROFIT/(LOSS) BEFORE TAXATION

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

	2016 US$'000	2015 US$'000
(a) Finance costs		
Interest on the Otsuka Loans (note 24(b))	2,758	2,438
Interest on the convertible bonds (note 28)	8,715	4,664
Interest on other interest-bearing borrowings	4,324	6,003
Others	907	1,673
	16,704	14,778

5 PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

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

(b) Staff costs

	2016 US$'000	2015 US$'000
Contributions to defined contribution retirement plan	**9,816**	10,264
Equity-settled share-based payment expenses (note 30)	**5,645**	4,652
Cash-settled share-based payment expenses (note 30)	**1,670**	1,224
Salaries, wages and other benefits	**120,096**	122,951
	137,227	139,091

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

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

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

5 PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

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

(c) Other items

	2016 US$'000	2015 US$'000
Amortisation#		
– land use rights (note 10)	**378**	402
– intangible assets (note 11)	**5,670**	5,130
	6,048	5,532
Depreciation of investment properties and other property, plant and equipment# (note 10)	**30,983**	32,938
Less: amount capitalised as development costs	**(950)**	(867)
	30,033	32,071
Impairment losses		
– trade and other receivables	**1,473**	635
– intangible assets (note 11)	**–**	282
– goodwill (note 12)	**999**	984
	2,472	1,901
Operating lease charges: minimum lease payment	**7,732**	7,839
Rental income from investment properties	**311**	–
Auditors' remuneration		
– audit services	**1,001**	1,194
– non-audit services	**–**	301
	1,001	1,495
Research and development costs (other than amortisation costs of intangible assets)	**49,546**	53,660
Write-off of intangible assets (note 11)	**–**	4,808
Cost of inventories# (note 19(b))	**125,068**	130,540

5 PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

Cost of inventories includes US$39,304,000 (2015: US$43,536,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

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

Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$24,245,000 (2015: US$27,771,000), depreciation of the relevant property, plant and equipment of US$3,395,000 (2015: US$3,816,000) and cost of inventories of US$6,204,000 (2015: US$6,305,000), which are included in the total staff cost as disclosed in note 5(b), depreciation as disclosed in note 5(c) and cost of inventories as disclosed in note 19(b), respectively.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

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

(iii) PRC CIT

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

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

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

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

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

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

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

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

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016					
	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment (note) US$'000	Total US$'000
Executive directors						
Zhaohua Chang	–	60	–	–	928	988
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Weiwei Chen	–	–	–	–	–	–
Janine Junyuan Feng (appointed on 28 March 2016)	–	–	–	–	–	–
Independent non-executive directors						
Zezhao Hua (retired on 27 June 2016)	16	–	–	–	–	16
Jonathan Chou	42	–	–	–	–	42
Guoen Liu	38	–	–	–	–	38
Chunyang Shao (appointed on 23 September 2016)	13	–	–	–	–	13
	109	60	–	–	928	1,097

7 DIRECTORS' EMOLUMENTS (CONTINUED)

	2015					
	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment (note) US$'000	Total US$'000
Executive directors						
Zhaohua Chang	–	60	–	–	815	875
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Weiwei Chen	–	–	–	–	–	–
Independent non-executive directors						
Zezhao Hua	40	–	–	–	–	40
Jonathan Chou	45	–	–	–	–	45
Guoen Liu	40	–	–	–	–	40
	125	60	–	–	815	1,000

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(u)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option schemes" in report of the director and note 30.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2015: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2015: four) individual are as follows:

	2016 US$'000	2015 US$'000
Salaries and other benefits	**1,353**	1,451
Retirement scheme contributions	**27**	12
Discretionary bonuses	**856**	551
Equity-settled share-based payment	**323**	–
Cash-settled share-based payment	**209**	1,448
	2,768	3,462

The emoluments of the four (2015: four) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	2
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$7,000,000	**1**	–
HK$7,000,001 to HK$11,000,000	**1**	1

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

(i) Weighted average number of ordinary shares

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

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of US$14,141,000 (2015: loss of US$12,086,000) and the weighted average number of ordinary shares of 1,438,090,000 shares (2015: 1,415,068,000 shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows.

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

	2016 **'000**	2015 '000
Weighted average number of ordinary shares at 31 December	**1,422,891**	1,415,068
Effect of deemed issue of shares under the Company's share option scheme (note 30)	**15,199**	–
Weighted average number of ordinary shares (diluted) at 31 December	**1,438,090**	1,415,068

The calculation of diluted earnings per share amount for the year ended 31 December 2016 has not included the potential effect of the deemed conversion of the convertible bonds (note 28) and the Term B Loan (note 24(b)) into ordinary shares during the year, as they have an anti-dilutive effect on the basic earnings per share amount for the year.

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

(a) Reconciliation of carrying amount

	Land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Investment properties US$'000	Land use rights US$'000	Total US$'000
Cost:										
At 1 January 2015	141,024	14,927	114,783	37,462	2,839	20,441	331,476	–	20,378	351,854
Exchange adjustments	(7,287)	(940)	(3,859)	(964)	(179)	(1,139)	(14,368)	–	(1,176)	(15,544)
Transfer from construction in progress	9,662	1,350	8,177	3,313	382	(22,884)	–	–	–	–
Additions	–	205	5,444	321	170	26,631	32,771	–	–	32,771
Disposals	–	(141)	(3,831)	(414)	(136)	–	(4,522)	–	–	(4,522)
At 31 December 2015 and 1 January 2016	**143,399**	**15,401**	**120,714**	**39,718**	**3,076**	**23,049**	**345,357**	**–**	**19,202**	**364,559**
Exchange adjustments	**(8,420)**	**(973)**	**(4,114)**	**(1,068)**	**(193)**	**(1,312)**	**(16,080)**	**(267)**	**(1,213)**	**(17,560)**
Transfer to investment properties	**(6,530)**	**–**	**–**	**–**	**–**	**–**	**(6,530)**	**6,530**	**–**	**–**
Transfer from construction in progress	**22,737**	**–**	**9,317**	**5,608**	**–**	**(37,662)**	**–**	**–**	**–**	**–**
Additions	**932**	**244**	**7,814**	**966**	**55**	**36,787**	**46,798**	**–**	**–**	**46,798**
Disposals	**(1,638)**	**(140)**	**(3,564)**	**(3,438)**	**(89)**	**–**	**(8,869)**	**–**	**(349)**	**(9,218)**
At 31 December 2016	**150,480**	**14,532**	**130,167**	**41,786**	**2,849**	**20,862**	**360,676**	**6,263**	**17,640**	**384,579**

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONTINUED)

(a) Reconciliation of carrying amount (continued)

	Land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Investment properties US$'000	Land use rights US$'000	Total US$'000
Accumulated depreciation, amortisation and impairment:										
At 1 January 2015	6,066	5,569	36,319	13,507	2,235	–	63,696	–	1,492	65,188
Exchange adjustments	(416)	(373)	(1,382)	(511)	(138)	–	(2,820)	–	(103)	(2,923)
Charge for the year	3,970	1,307	18,582	8,781	298	–	32,938	–	402	33,340
Written back on disposals	–	(14)	(1,838)	(301)	(96)	–	(2,249)	–	–	(2,249)
At 31 December 2015 and 1 January 2016	**9,620**	**6,489**	**51,681**	**21,476**	**2,299**	**-**	**91,565**	**-**	**1,791**	**93,356**
Exchange adjustments	**(593)**	**(439)**	**(1,768)**	**(679)**	**(152)**	**-**	**(3,631)**	**(23)**	**(129)**	**(3,783)**
Transfer to investment properties	**(431)**	**-**	**-**	**-**	**-**	**-**	**(431)**	**431**	**-**	**-**
Charge for the year	**4,441**	**915**	**18,435**	**6,794**	**263**	**-**	**30,848**	**135**	**378**	**31,361**
Written back on disposals	**(702)**	**(60)**	**(2,338)**	**(3,374)**	**(86)**	**-**	**(6,560)**	**-**	**(38)**	**(6,598)**
At 31 December 2016	**12,335**	**6,905**	**66,010**	**24,217**	**2,324**	**-**	**111,791**	**543**	**2,002**	**114,336**
Net book value:										
At 31 December 2016	**138,145**	**7,627**	**64,157**	**17,569**	**525**	**20,862**	**248,885**	**5,720**	**15,638**	**270,243**
At 31 December 2015	133,779	8,912	69,033	18,242	777	23,049	253,792	–	17,411	271,203

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONTINUED)

(b) The analysis of net book value of properties is as follows:

	2016 **US$'000**	2015 US$'000
In the US		
– medium-term leases	**14,007**	14,734
– freehold	**4,839**	4,839
	18,846	19,573
In the PRC		
– medium-term leases	**140,657**	131,617
	159,503	151,190
Representing:		
Investment properties, carried at cost	**5,720**	–
Land and buildings held for own use, carried at cost	**138,145**	133,779
Land use rights	**15,638**	17,411
	159,503	151,190

(c) As at 31 December 2016, land use rights and buildings held for own use with net book value of US$4,629,000 and US$76,317,000, respectively (2015: US$5,064,000 and US$80,138,000, respectively) have been pledged as security for certain banking facilities and the long-term loan from Shanghai Municipal Financial Administration ("SMFA") (see note 24).

(d) Property, plant and equipment held under finance leases

The Group leases certain machinery equipment under finance leases expiring from one to five years. At the end of the reporting period, the net book value of machinery equipment held under finance leases was US$54,561 (2015: US$1,464,000).

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONTINUED)

(e) Investment properties

	2016 **US$'000**	2015 US$'000
Net book value of investment properties	**5,720**	–
Fair value of investment properties	**8,217**	–

As at 31 December 2016, the investment properties located in Beijing and Shanghai in the PRC were rented out under terms of operating leases. The fair value of one investment property is determined by reference to the market prices of comparable properties from the public real estate website. The fair value of the other investment property is determined by reference to a valuation report of a comparable property dated 30 April 2015 issued by an independent external valuer. Management consider the fair value of such property does not have a significant change since the date of the valuation report.

11 INTANGIBLE ASSETS

	Technologies US$'000	Products licences US$'000	Capitalised development costs US$'000	Customer contracts and related customer relationship US$'000	Trademark and others US$'000	Total US$'000
Cost						
At 1 January 2015	15,328	9,290	35,456	9,968	536	70,578
Exchange adjustments	(76)	(536)	(2,307)	(158)	(3)	(3,080)
Additions	–	–	11,503	–	951	12,454
Write-off	–	–	(4,808)	–	–	(4,808)
At 31 December 2015 and 1 January 2016	15,252	8,754	39,844	9,810	1,484	75,144
Exchange adjustments	(80)	(559)	(3,227)	(166)	(3)	(4,035)
Additions	–	–	16,622	–	248	16,870
At 31 December 2016	15,172	8,195	53,239	9,644	1,729	87,979
Accumulated amortisation and impairment:						
At 1 January 2015	2,693	2,864	1,506	2,938	71	10,072
Exchange adjustments	(76)	(201)	(161)	(116)	(3)	(557)
Amortisation charge for the year	1,399	672	1,886	1,134	39	5,130
Impairment charge for the year	–	282	–	–	–	282
At 31 December 2015 and 1 January 2016	4,016	3,617	3,231	3,956	107	14,927
Exchange adjustments	(81)	(257)	(303)	(126)	(3)	(770)
Amortisation charge for the year	1,437	630	2,351	1,156	96	5,670
At 31 December 2016	5,372	3,990	5,279	4,986	200	19,827
Net book value:						
At 31 December 2016	9,800	4,205	47,960	4,658	1,529	68,152
At 31 December 2015	11,236	5,137	36,613	5,854	1,377	60,217

Capitalised development costs primarily related to cardiovascular, endovascular, electrophysiology and neurovascular devices business segments.

Included in intangible assets were an amount of US$30,101,000 (2015: US$21,772,000) that are not yet available for use. These intangible assets were solely related to capitalised development costs.

11 INTANGIBLE ASSETS (CONTINUED)

Amortisation of intangible assets has been charged to the consolidated statement of profit or loss as follows:

	2016 **US$'000**	2015 US$'000
Research and development costs	**2,351**	1,886
Distribution costs	**706**	754
Administrative expenses	**2,613**	2,490
	5,670	5,130

12 GOODWILL

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

12 GOODWILL (CONTINUED)

Impairment tests for cash-generating unit containing goodwill

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

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

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

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

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

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

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated:

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activity
Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai") (上海微創醫療器械(集團)有限公司)[(i)]	The PRC	US$50,000,000	100%	85.6%	14.4%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai") (上海微創生命科技有限公司)[(ii)]	The PRC	Chinese Renminbi ("RMB") 58,000,000	100%	–	100%	Manufacturing, distribution, research and development of medical devices
MicroPort Lifesciences (Beijing) Co., Ltd. (微創(北京)生命醫學科技有限公司)[(ii)]	The PRC	RMB3,000,000	100%	–	100%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Orthopedics Co., Ltd. ("MP Orthopedics") (上海微創骨科醫療科技有限公司)[(ii)]	The PRC	RMB343,029,750/ RMB1,995,000,000	100%	–	100%	Manufacturing, distribution, research and development of orthopedics devices
MicroPort NeuroTech (Shanghai) Co., Ltd. ("MP Neuro") (微創神通醫療科技(上海)有限公司)[(ii)]	The PRC	RMB52,764,937/ RMB53,500,000	84.2%	–	84.2%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort EP MedTech Co., Ltd. ("MP EP") (上海微創電生理醫療科技股份有限公司)[(ii)]	The PRC	RMB70,031,250	81.93%	–	81.93%	Distribution, research and development of electrophysiology devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activity
Suzhou MicroPort Spine and Trauma Co., Ltd. ("Suzhou MicroPort") （蘇州微創脊柱創傷醫療科技有限公司）[(ii)]	The PRC	RMB30,827,703	100%	–	100%	Manufacturing distribution, research and development of orthopedics devices
MicroPort Orthopedics (Suzhou) Co., Ltd. （微創骨科醫療科技（蘇州）有限公司）[(ii)]	The PRC	US$56,928,400/ US$320,000,000	100%	–	100%	Distribution, research and development of orthopedics devices
MicroPort Endovascular (Shanghai) Co., Ltd. ("MP Endo") （微創心脈醫療科技（上海）有限公司）[(iii)]	The PRC	RMB53,978,147	83.37%	–	83.37%	Distribution, research and development of endovascular devices
Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") （東莞科威醫療器械有限公司）[(ii)]	The PRC	RMB45,000,000	100%	–	100%	Manufacturing, distribution, research and development of surgical devices
D-pulse Medical (Beijing) Co., Ltd. ("D-pulse") （龍脈醫療器械（北京）有限公司）[(ii)]	The PRC	US$2,000,000	100%	–	100%	Manufacturing, distribution, research and development of cardiovascular devices
Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow") （上海微創心通醫療科技有限公司）[(ii)]	The PRC	RMB11,035,137/ RMB11,231,000	100%	–	100%	Manufacturing, distribution, research and development of medical devices
MicroPort Orthopedics Inc.	The US	US$1	100%	–	100%	Manufacturing, distribution, research and development of medical devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Issued/ registered capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
MicroPort Scientific Srl	Italy	EUR2,000,000	100%	–	100%	Distribution, research and development of medical devices
MicroPort Orthopedics Japan K.K.	Japan	JPY100,000,000	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics Ltd.	Canada	CAD6,514,941	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics B.V.	The Netherlands	EUR1	100%	–	100%	Manufacturing distribution, research and development of medical devices
MicroPort Scientific GmbH	Germany	EUR25,000	100%	–	100%	Distribution, research and development of medical devices
MicroPort Scientific SAS	France	EUR37,000	100%	–	100%	Distribution, research and development of medical devices
MicroPort Orthopedics NV	Belgium	EUR61,500	100%	–	100%	Distribution, research and development of medical devices
MicroPort Scientific Ltd.	United Kingdom	GBP1	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics Global Supply Center Limited	Hong Kong	HK$100 & US$30,195,000	100%	–	100%	Distribution of medical devices

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(i) These subsidiaries are wholly foreign-owned enterprises.

(ii) These subsidiaries are domestic enterprises.

(iii) The subsidiary is a sino-foreign equity joint venture enterprise. The entity is accounted for as the Group's subsidiary as it is controlled by the Group.

The directors are of the view that the Group has no individually material non-controlling interests for the years ended 31 December 2016 and 2015.

14 INTEREST IN AN ASSOCIATE

	2016 **US$'000**	2015 US$'000
Investment in an associate (see below)	**5,000**	–
Investment in convertible bonds issued by an associate (see note 16)	**6,432**	–
	11,432	–

On 19 December 2016, MicroPort NeuroTech Corp. ("MicroPort NeuroTech") and MicroPort NeuroTech CHINA Corp. Limited ("MicroPort NeuroTech CHINA"), subsidiaries of the Group entered into an investment agreement (the "Investment Agreement") with Lombard Medical, Inc. ("Lombard"), pursuant to which, MicroPort NeuroTech agreed to subscribe to an aggregate of 8,064,516 ordinary shares of Lombard at a price of US$0.62 per share totalling US$5,000,000; and MicroPort NeuroTech CHINA agreed to subscribe to the convertible bonds in an aggregate principal amount of US$10,000,000 (the "Lombard Convertible Bonds") (see note 16).

Details of the Group's equity interests in Lombard, which is recognised as an investment in an associate and accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal Activity**
Lombard	Incorporated	Cayman Islands	27,950,785 ordinary shares of US$0.01 each	17.31%	–	28.85%	Developing, manufacturing, and marketing of endovascular stent-grafts(note)

Note: Lombard is an Oxfordshire, United Kingdom-based medical device company focused on the market for minimally invasive treatment of abdominal aortic aneurysms and listed on NASDAQ under the code EVAR.

14 INTEREST IN AN ASSOCIATE (CONTINUED)

The market value of the Group's equity interests in Lombard as at 31 December 2016 amounted to US$4,831,000.

Summarised financial information of Lombard are disclosed below:

	2016 US$'000
Gross amounts of Lombard	
Non-current assets	**34,183**
Current assets	**33,584**
Current liabilities	**(10,072)**
Non-current liabilities	**(43,722)**
Equity	**13,973**

For the year ended 31 December 2016, the directors are of the view that the losses of Lombard shared by the Group for the period from 19 December 2016 to 31 December 2016 is not material and no share of losses of an associate has been recognised in profit or loss.

15 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of joint venture	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Goup's Effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM") (創領心律管理醫療器械(上海)有限公司)	Incorporated	The PRC	Registered capital RMB122,000,000	51%	–	51%	Manufacturing, distribution, research and development of cardiac rhythm management devices

MicroPort Sorin CRM was established by MP Shanghai and Sorin CRM Holdings SAS ("Sorin") in 2014. MP Shanghai holds 51% interests in MicroPort Sorin CRM and Sorin holds the remaining 49% interests. Pursuant to the terms of the joint venture agreement and articles of association of MicroPort Sorin CRM, management of the Group determine that MicroPort Sorin CRM is a joint venture.

MicroPort Sorin CRM, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

15 INTEREST IN A JOINT VENTURE (CONTINUED)

Summarised financial information of MicroPort Sorin CRM, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2016 US$'000	2015 US$'000
Gross amounts of MicroPort Sorin CRM		
Non-current assets	3,754	3,752
Current assets	4,289	7,676
Current liabilities	(6,537)	(1,904)
Non-current liabilities	(180)	(192)
Equity	1,326	9,332
Included in the above assets and liabilities:		
Cash and cash equivalents	1,309	4,461
Current financial liabilities (excluding trade and other payables and provisions)	(5,262)	–

	2016 US$'000	2015 US$'000
Gross amounts of MicroPort Sorin CRM		
Revenue	1,302	2,136
Loss for the year	(7,727)	(7,427)
Other comprehensive income	(279)	(750)
Total comprehensive income	(8,006)	(8,177)
Included in the above loss:		
Depreciation and amortisation	515	314
Interest income	8	16
Reconciled to the Group's interest in MicroPort Sorin CRM:		
Gross amount of MicroPort Sorin CRM's net assets	1,326	9,332
Group's effective interest	51%	51%
Group's share of MicroPort Sorin CRM's net assets and carrying amount in the consolidated statement of financial position	676	4,759

16 INVESTMENT IN CONVERTIBLE BONDS

As disclosed in note 14, MicroPort NeuroTech CHINA subscribed to the Lombard Convertible Bonds in an aggregate principal amount of US$10,000,000 on 19 December 2016, with a term of five years, which may be extended under certain conditions. The Lombard Convertible Bonds bear interest at LIBOR plus 4.0% and contain a conversion option which entitles MicroPort NeuroTech CHINA to convert them into ordinary shares of Lombard at any time during the period commencing from the date of issuance up to the maturity, at an initial conversion price of US$0.90 per share, subject to anti-dilutive clauses.

The conversion option is considered as an embedded derivative component of the Lombard Convertible Bonds which is separated from the host contract and remeasured at the end of each reporting period. The changes in fair value is recognised immediately in profit or loss. Any excess of payments over the amount initially recognised as the derivative component is recognised as the debt component. The debt component of the Lombard Convertible Bonds is subsequently carried at amortised cost and classified as a non-current assets. The interest income recognised in profit or loss on the debt component are calculated using the effective interest method.

During the year ended 31 December 2016, no conversion of the Lombard Convertible Bonds had been occurred. The movement of the debt component and the derivative component of the Lombard Convertible Bonds are set out as below:

	Debt component US$'000	**Derivative component** US$'000	**Total** US$'000
Acquisition of the Lombard Convertible Bonds	6,390	3,610	10,000
Interest income (note 4)	42	–	42
Changes in fair value recognised in profit or loss during the year (note 4)	–	(111)	(111)
As at 31 December 2016	6,432	3,499	9,931

17 AVAILABLE-FOR-SALE SECURITIES

	2016 **US$'000**	2015 US$'000
Unlisted equity securities	**2,000**	–

In November 2016, the Group entered into a series C convertible preferred share purchase agreement (the "Preferred Share Purchase Agreement") with MinInvasive Ltd. ("MinInvasive"), a private company incorporated in Israel, which develops shoulder rotator cuff repair devices, pursuant to which, the Group agreed to subscribe to a total of 708,703 preferred shares of MinInvasive at a cash consideration of US$3,000,000. Of which, 472,469 preferred shares at a consideration of US$2,000,000 were issued on 21 November 2016. Each preferred shares shall be convertible into the ordinary shares of MinInvasive at the option of the holder thereof, at any time after the date on which such preferred shares was issued and certain events occurred specified in the articles of association of MinInvasive.

As there is no quoted price in an active market for an identical instrument and the fair value of the investment in MinInvasive cannot be reliably measured without incurring excessive costs, the investment in MinInvasive are stated at cost less impairment losses.

As at 31 December 2016, the Group had not completed the acquisition of the remaining 236,234 preferred shares as the related closing conditions specified in the Preferred Share Purchase Agreement had not been met.

18 OTHER NON-CURRENT ASSETS

	2016 **US$'000**	2015 US$'000
Prepaid royalty	**1,557**	3,315
Deposits	**1,209**	559
Others	**598**	465
	3,364	4,339

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 **US$'000**	2015 US$'000
Raw materials	**12,648**	10,698
Work in progress	**17,959**	17,375
Finished goods	**70,256**	73,767
	100,863	101,840

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 **US$'000**	2015 US$'000
Carrying amount of inventories sold	**117,329**	123,003
Increase of inventory provision	**914**	332
Cost of inventories sold	**118,243**	123,335
Cost of inventories directly recognised as research and development costs and distribution costs	**6,825**	7,205
	125,068	130,540

20 TRADE AND OTHER RECEIVABLES

	2016 US$'000	2015 US$'000
Trade debtors due from:		
– third party customers	**104,125**	104,465
– related parties (note 36(c))	**1,443**	1,272
	105,568	105,737
Less: Allowance for doubtful debts (note 20(b))	**(5,385)**	(4,337)
	100,183	101,400
Other debtors	**10,109**	9,317
Income tax recoverable (note 26(a))	**2,958**	3,325
Amounts due from related parties (notes 32(b) and 36(d))	**2,000**	–
Amounts due from New Alliance FF Limited ("New Alliance") (note 32(b))	**2,000**	–
Loans and receivables	**117,250**	114,042
Deposits and prepayments	**11,502**	12,915
	128,752	126,957

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

(a) Ageing analysis

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

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

Trade debtors are due within 30 to 360 days from the date of billing. Further details of the Group's credit policy are set out in note 33(a).

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(m)(i)).

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

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

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

(c) Trade debtors that are not impaired

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

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

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

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors that are not impaired (continued)

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

21 PLEDGED DEPOSITS AND TIME DEPOSITS

	2016 **US$'000**	2015 US$'000
Current		
Deposits with original maturities over three months	**–**	482
Pledged deposits	**668**	2,494
	668	2,976

Included in pledged deposits at 31 December 2016, US$96,588 (2015: US$100,000 were pledged as security for SMFA loan) were pledged as security for SMFA loan.

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016 **US$'000**	2015 US$'000
Cash at bank and on hand	**123,694**	99,467

As at 31 December 2016, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to US$55,506,000 (2015: US$76,427,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

22 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of profit/(loss) before taxation to cash generated from operations:

	Note	**2016 US$'000**	2015 US$'000
Profit/(loss) before taxation		**25,286**	(8,542)
Adjustments for:			
Amortisation of land use rights	*5(c)*	**378**	402
Amortisation of intangible assets	*5(c)*	**5,670**	5,130
Write-off of intangible assets	*5(c)*	**–**	4,808
Depreciation	*5(c)*	**30,033**	32,071
Impairment loss on intangible assets	*5(c)*	**–**	282
Impairment loss on goodwill	*5(c)*	**999**	984
Finance costs	*5(a)*	**16,704**	14,778
Interest income on bank deposits	*4*	**(843)**	(1,003)
Interest income on convertible bonds	*4*	**(42)**	–
Changes in fair value of embedded financial derivatives	*4*	**(263)**	(195)
Net loss on disposal of property, plant and equipment	*4*	**560**	718
Share of losses of a joint venture		**3,941**	3,788
Equity-settled share-based payment and share award scheme expenses	*5(b)*	**5,645**	4,652
Changes in working capital:			
Decrease in inventories		**1,183**	5,769
Increase in trade and other receivables		**(4,955)**	(4,966)
Increase/(decrease) in trade and other payables		**1,871**	(17,096)
Increase/(decrease) in deferred income		**3,708**	(5,448)
Cash generated from operations		**89,875**	36,132

23 TRADE AND OTHER PAYABLES

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

All of the above balances are expected to be settled within one year.

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

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

24 INTEREST-BEARING BORROWINGS

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

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

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

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

24 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) Bank loans

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

(b) Otsuka Loans

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

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

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

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

	Liability component US$'000	**Derivative component** US$'000	**Total** US$'000
As at 1 January 2016	38,270	397	38,667
Changes in fair value recognised in profit or loss during the year (note 4)	–	(374)	(374)
Interest charged during the year (note 5(a))	2,758	–	2,758
Interest paid during the year	(673)	–	(673)
As at 31 December 2016	40,355	23	40,378

25 OTHER CURRENT LIABILITIES

Pursuant to the contractual agreements dated 25 June 2012 (the "Agreements") relating to the acquisition of Dongguan Kewei, the Group granted 4,000,000 share options (see note 30(a)(i)) to a seller of Dongguan Kewei (the "Seller"). The options vest on 25 June 2016.

Under the Agreements, the Seller is obligated to exercise the share options in its entirety with a total exercise payment of RMB10,595,000 (the "Exercise Payment", equivalent to US$1,671,000) and to sell all the shares obtained from the exercise of these share options within 22 trading days commencing from the fourth anniversary of the Grant Date through an agent jointly designated by the Group and the Seller (the "Mandatory Share Sale"). If the proceeds from the Mandatory Share Sale less the Exercise Payment (the "Option Realisable Value") be lower than RMB48,915,600 (the "Specified Amount", equivalent to US$7,305,000), the Group should make an additional payment to the Seller in cash, being the difference between the Option Realisable Value and the Specified Amount and such payment will be no higher than the Specified Amount. If the Option Realisable Value exceed the Specified Amount, the Seller should pay such excess amounts to the Group in cash.

In July 2016, the Seller sold all shares which obtained from the exercise of the entire share options. The actual Option Realisable Value was approximately RMB2,022,000 (equivalent to US$302,000). The Group subsequently paid US$7,006,000, being the difference between the Option Realisable Value and the Specified Amount, to the Seller. The amount of US$1,973,000, being the total of the Exercise Payment and the actual Option Realisable Value was credited to share premium.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2016 US$'000	2015 US$'000
Provision for the year	**10,969**	2,853
Provisional tax paid	**(7,283)**	(5,974)
Exchange adjustments	**(50)**	54
	3,636	(3,067)
Balance of profits tax provision relating to prior years	**(1,973)**	968
	1,663	(2,099)
Represented by:		
Income tax recoverable (note 20)	**(2,958)**	(3,325)
Income tax payable	**4,621**	1,226
	1,663	(2,099)

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax (assets)/liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Accrued expense US$'000	Withholding tax on retained profits of a PRC subsidiary US$'000	Fair value adjustments in respect of net assets acquired in business combinations US$'000	Others US$'000	Total US$'000
At 1 January 2015	(2,910)	2,102	1,307	(1,065)	(566)
Exchange adjustments	148	(121)	(71)	(6)	(50)
(Credited)/charged to profit or loss	(346)	–	(124)	740	270
At 31 December 2015 and 1 January 2016	**(3,108)**	**1,981**	**1,112**	**(331)**	**(346)**
Exchange adjustments	**159**	**(126)**	**(76)**	**(142)**	**(185)**
(Credited)/charged to profit or loss	**(986)**	**–**	**136**	**(75)**	**(925)**
At 31 December 2016	**(3,935)**	**1,855**	**1,172**	**(548)**	**(1,456)**

Reconciliation to the consolidated statement of financial position:

	2016 US$'000	2015 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(4,739)**	(3,711)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**3,283**	3,365
	(1,456)	(346)

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(v), the Group has not recognised deferred tax assets in respect of cumulative tax losses attributable to certain subsidiaries of US$123,723,000 at 31 December 2016 (2015: US$104,512,000), as the directors consider that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

The accumulated tax losses of US$100,303,000 incurred by OrthoRecon Business may be carried forward for 20 years under current tax legislation. The tax losses incurred by PRC subsidiaries of US$3,497,000, US$2,533,000, US$2,904,000, US$5,321,000 and US$9,165,000 will expire in 2017, 2018, 2019, 2020 and 2021 respectively.

(d) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the undistributed profits of PRC subsidiaries amounted to US$238,012,000 (2015: US$207,783,000). Deferred tax liabilities of US$23,801,200 (2015: US$20,778,300) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

27 DEFERRED INCOME

The movements of deferred income are as follows:

	Note	**Government subsidies for research and development projects** US$'000	**Others** US$'000	**Total** US$'000
At 1 January 2015		28,976	23	28,999
Additions		3,212	–	3,212
Government grant recognised as other revenue	*4*	(8,649)	(11)	(8,660)
Exchange adjustments		(1,460)	–	(1,460)
At 31 December 2015 and 1 January 2016		**22,079**	**12**	**22,091**
Additions		**11,723**	**–**	**11,723**
Government grant recognised as other revenue	*4*	**(8,010)**	**(5)**	**(8,015)**
Exchange adjustments		**(1,563)**	**(2)**	**(1,565)**
At 31 December 2016		**24,229**	**5**	**24,234**

27 DEFERRED INCOME (CONTINUED)

	2016 US$'000	2015 US$'000
Represented by:		
Current portion	**3**	5
Non-current portion	**24,231**	22,086
	24,234	22,091

The current portion of deferred income is included in trade and other payables in note 23.

28 CONVERTIBLE BONDS

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

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

Based on the terms of the GIC Convertible Bonds and the Carlyle Convertible Bonds, these convertible bonds will be settled by exchange of a fixed amount of cash in US$ with a fixed number of the Company's equity instruments. In accordance with the Group's accounting policy set out in note 1(p)(i), these convertible bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

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

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

28 CONVERTIBLE BONDS (CONTINUED)

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

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

29 OBLIGATIONS UNDER FINANCE LEASES

As of the end of the reporting period, the Group had obligations under finance leases repayable as follows:

	2016		2015	
	Present value of the minimum lease payments US$'000	**Total minimum lease payments US$'000**	Present value of the minimum lease payments US$'000	Total minimum lease payments US$'000
Within one year	**81**	**88**	1,209	1,214
After one year but within two years	**13**	**14**	14	15
After two years but within five years	**10**	**10**	19	19
	104	**112**	1,242	1,248
Less: Total future interest expenses		**(8)**		(6)
Present value of lease obligations		**104**		1,242

The non-current portion of obligations under finance leases is included in other financial liabilities.

30 SHARE-BASED PAYMENT TRANSACTIONS

(a) The 2006 and 2010 share option plans (equity-settled)

On 3 September 2010, the Company approved a 10-for-1 share split (the "Share Split") of the Company's ordinary shares conditional on the completion of IPO. The 10-for-1 split also applies to the Company's share option plans. Accordingly, the number of share options and exercise price information presented below in respect of the share option plans have been adjusted retrospectively to reflect the 10-for-1 share split effect as if the Share Split had occurred at the beginning of the years presented.

On 26 August 2006, the Company adopted a share incentive plan (the "2006 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the executives, employees and external consultants of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

30 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

On 3 September 2010, the Company adopted a share option plan (the "2010 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the directors, employees or business associates of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

On 9 March 2010, the Board approved a modification to the 2006 Option Plan, to reduce the exercise price from US$0.425 to US$0.3062 for the share options granted on 17 May 2007, 14 June 2007, 25 July 2008 and 1 December 2008. The reduction of exercise prices of the above share options resulted in an incremental fair value of US$316,000 at the modification date. The incremental fair value is being recognised as equity-settled share-based payment expenses over the remaining vesting period.

(i) The terms, conditions and fair values at the grant date of the grants are as follows:

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to executives and directors on:				
2 March 2007	36,353,620	5,342	0.15	0.19
2 April 2007	1,450,000	153	0.11	0.28
14 June 2007	500,000	31	0.06	0.31
25 July 2008	3,700,000	333	0.09	0.31
1 December 2008	4,200,000	587	0.14	0.31
21 October 2009	6,000,000	1,207	0.20	0.31
9 July 2010	28,648,730	7,838	0.27	0.31
9 August 2010	5,000,000	1,608	0.32	0.31
7 September 2012	500,000	73	0.15	0.43
22 October 2012	500,000	84	0.17	0.54
2 January 2013	500,000	86	0.17	0.55
28 August 2013	250,000	55	0.22	0.64
9 December 2013	400,000	91	0.23	0.72
21 January 2014	650,000	184	0.28	0.69
28 August 2014	500,000	118	0.24	0.61
20 January 2015	29,400,000	4,459	0.15	0.41
30 June 2015	300,000	53	0.18	0.50
7 December 2015	2,000,000	306	0.15	0.39
30 March 2016	40,970,000	6,737	0.16	0.45
27 June 2016	700,000	122	0.17	0.50
1 September 2016	750,000	199	0.27	0.64
	163,272,350	29,666		

30 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values at the grant date of the grants are as follows (continued):

The above share options are vested in instalments over an explicit vesting period of four to six years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

	Number of options	Fair value	Weighted average fair value per share option	Weighted average exercise price
		US$'000	US$	US$
Options granted to employees on:				
23 April 2007	7,500,000	791	0.11	0.28
6 February 2009	250,000	34	0.14	0.43
8 July 2010	1,230,940	363	0.30	0.31
17 October 2011	500,000	136	0.27	0.62
1 November 2011	750,000	185	0.25	0.58
28 August 2012	10,000,000	1,354	0.14	0.43
10 December 2012	13,300,000	2,354	0.18	0.59
	33,530,940	5,217		

The above share options are vested in instalments over an explicit vesting period of four to seven years. The vesting schedule of each employee is different and is determined based on the date of employment. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

	Number of options	Fair value	Weighted average fair value per share option	Weighted average exercise price
		US$'000	US$	US$
Options granted to consultants on:				
17 May 2007	1,500,000	97	0.06	0.31
14 June 2007	500,000	33	0.07	0.31
	2,000,000	130		

30 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values at the grant date of the grants are as follows (continued):

The above share options are vested in instalments over an explicit vesting period of four to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of options is 10 years. The options granted on 14 June 2007 are exercisable upon an IPO of the Company's shares which was completed in September 2010.

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted under a business combination:				
25 June 2012	4,000,000	411	0.10	0.42
Total options granted	202,803,290	35,424		

The Group granted 4,000,000 shares options to the former shareholder of an acquired business on 25 June 2012 (see note 25). The options are vested on 25 June 2016. The contractual life of options granted is 4.08 years.

(ii) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price US$	**Number of options**	Weighted average exercise price US$	Number of options
Outstanding at the beginning of the year	**0.41**	**81,388,390**	0.40	58,776,150
Granted during the year	**0.45**	**42,420,000**	0.41	31,700,000
Exercised during the year	**0.34**	**(12,912,350)**	0.31	(4,408,600)
Forfeited during the year	**0.47**	**(7,968,510)**	0.31	(4,679,160)
Outstanding at the end of the year	**0.43**	**102,927,530**	0.41	81,388,390
Exercisable at the end of the year	**0.34**	**23,092,530**	0.31	26,348,390

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from January 2017 through September 2026. As at 31 December 2016, the weighted average remaining contractual life for the share options granted under the 2006 and 2010 share option plans was 5.41 years (2015: 6.32 years).

(Expressed in United States dollars unless otherwise indicated)

30 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	**2016**	2015
Fair value at measurement dates	**HK$1.02 to HK$2.24**	HK$1.09 to HK$1.37
Share price	**HK$3.36 to HK$4.95**	HK$2.93 to HK$3.82
Exercise price	**HK$3.48 to HK$4.95**	HK$3.02 to HK$3.90
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**40.20% to 40.85%**	37.45% to 40.79%
Option life	**10 years**	10 years
Suboptimal exercise factor	**1.50 to 1.77**	2.0
Expected dividend yield	**0%**	0% to 1.02%
Average risk-free interest rate	**0.95% to 1.31%**	1.46% to 1.78%
Forfeiture rate	**0% to 4.18%**	4.19% to 4.86%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as the Group.

Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

In respect of share options granted during 2015 and 2016, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

(b) 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 year ended 31 December 2016, the Company granted 6,361,486 shares (2015: 4,553,886) to the Group's executives with a fair value of US$2,850,000 (2015: US$2,204,000) and purchased 10,515,000 shares (2015: 4,567,000 shares) at cash consideration of US$5,774,000 (2015: US$2,441,000).

The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

30 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) Employee share purchase plans ("ESPP") (equity-settled)

Since 2014, the Group adopted several ESPPs, pursuant to which, the Group agreed to transfer partial equity interests in subsidiaries to partnership firms, whose limited partners consisted of employees of the Group.

Prior to 2016, the Group had transferred 11%, 15% and 15.8% equity interests in MP Endo, MP EP and MP Neuro to respective partnership firms.

During 2016, the Group completed the transfer of 13.3% equity interests in MP CardioFlow to a partnership at a consideration of RMB17,730,000 (equivalent to US$2,730,000).

All participants of the above ESPPs have purchased equity interests in respective partnership firms at amounts specified in the partnership agreements (the "Subscription Amount").

The vesting periods of the above ESPPs are three years as employees participating in the plan have to transfer out their equity interests if their employments with the Group were terminated within three years from the equity interests purchase dates, to a person or a party nominated by the general partners of the partnership firms at a price no higher than the Subscription Amount.

The grant-date fair values of the ESPPs granted during the years ended 31 December 2016, 2015 and 2014 were US$191,000, US$430,000 and US$302,000, respectively.

(d) Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss during the current and prior years:

	2016 US$'000	2015 US$'000
Research and development costs	**1,430**	1,259
Distribution costs	**1,570**	1,193
Administrative expenses	**2,645**	2,200
	5,645	4,652

Except for the 4,000,000 shares granted in respect of a business combination under the 2010 Option Plan, the other share options granted under the 2004 Modified Plan, the 2006 Option Plan, the 2010 Option Plan, the share award scheme and the ESPPs were all granted to executives, employees and external consultants of the Group. Accordingly, the compensation expense was reflected as equity-settled share-based payment expenses with a corresponding increase in the capital reserve of the Group.

(Expressed in United States dollars unless otherwise indicated)

30 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(e) Long-term incentive awards (cash-settled)

In 2014, the Board approved a long-term incentive (the "LTI") scheme. The Company may grant the LTI awards to certain overseas employees of the Group under the LTI scheme, pursuant to which the eligible employees will be entitled to receive payments in cash at the time that such awards vest. The LTI awards will vest 25% on each of the first four anniversaries of the grant date. The settlement shall be made in cash as promptly as practicable but in no event after the thirtieth day following the applicable vesting date. The settlement amount will be determined based on the share price of the Company's ordinary shares at the dates specified in the LTI awards agreement and the unit of awards that shall have vested on such dates.

Details of the LTI awards are as follows:

	2016		2015	
	Weighted average exercise price US$	**Number of options**	Weighted average exercise price US$	Number of options
Outstanding at the beginning of the year	**0.48**	**11,353,119**	0.42	12,535,030
Granted during the year	**0.50**	**5,111,624**	0.42	6,513,320
Exercised during the year	**0.61**	**(2,762,851)**	0.40	(3,234,434)
Forfeited during the year	**0.53**	**(2,770,280)**	0.45	(4,460,797)
Outstanding at the end of the year	**0.44**	**10,931,612**	0.48	11,353,119
Exercisable at the end of the year		**–**		–

As at 31 December 2016, the total carrying amount of the liabilities arising from the LTI awards was US$3,630,250 (2015: US$1,062,554), which is included in other payables and accrued charges, and the total intrinsic value of the liabilities for which the respective employees' right had vested is US$2,762,851 (2015: US$3,234,434).

During the year ended 31 December 2016, 2,770,280 (2015: 4,460,797) LTI awards were forfeited prior to the vesting as a result of the resignation of employees. Accordingly, reversal of share-based payment expenses of US$480,000 (2015: US$800,000) was recognised in consolidated statement of profit or loss.

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	(Accumulated losses)/ retained earnings US$'000	Total US$'000
Balance at 1 January 2015		14	239,433	13,720	(27,831)	225,336
Changes in equity for 2015:						
Profit for the year		–	–	–	239,646	239,646
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	239,646	239,646
Equity-settled share-based transactions	*30*	–	–	2,308	–	2,308
Shares issued under share option scheme	*31(c)(iii)*	–	2,421	(1,068)	–	1,353
Shares purchased under share award scheme	*30(b)*	–	–	(2,441)	–	(2,441)
Shares granted under share award scheme	*30(b)*	–	–	2,204	–	2,204
Balance at 31 December 2015 and 1 January 2016		14	241,854	14,723	211,815	468,406
Changes in equity for 2016:						
Loss for the year		**–**	**–**	**–**	**(8,902)**	**(8,902)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**(8,902)**	**(8,902)**
Equity-settled share-based transactions	*30*	**–**	**–**	**2,505**	**–**	**2,505**
Equity component of convertible bonds	*28*	**–**	**–**	**17,485**	**–**	**17,485**
Shares issued under share option scheme	*31(c)(iii)*	**–**	**4,604**	**(1,718)**	**–**	**2,886**
Shares purchased under share award scheme	*30(b)*	**–**	**–**	**(5,774)**	**–**	**(5,774)**
Shares granted under share award scheme	*30(b)*	**–**	**–**	**2,850**	**–**	**2,850**
Shares issued under the settlement of other current liabilities	*25*	**–**	**1,973**	**–**	**–**	**1,973**
Balance at 31 December 2016		**14**	**248,431**	**30,071**	**202,913**	**481,429**

31 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

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

(c) Share capital

(i) Ordinary shares

	2016		2015	
	Number of shares '000	**Amount US$'000**	Number of shares '000	Amount US$'000
Authorised:				
Ordinary shares of US$0.00001 each	**4,987,702**	**50**	4,987,702	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,426,569**	**14**	1,422,160	14
Shares issued under share option plans (note 31(c)(iii))	**8,912**	**–**	4,409	–
Shares issued under the settlement of other current liabilities (note 25)	**4,000**	**–**	–	–
At 31 December	**1,439,481**	**14**	1,426,569	14

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

(ii) Purchase of own shares

During the year, the Company purchased its own ordinary shares on The Stock Exchange of Hong Kong Limited under the share award scheme (see note 30(b)) as follows:

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

31 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iii) Shares issued under the share option plans

Shares issued under the share option plans during the year are summarised as follows:

	No. of share options exercised	Consideration	Credited to/(transferred from)		
			Share capital	Share premium	Capital reserve
		US$'000	US$'000	US$'000	US$'000
Options exercised in:					
February 2015	65,380	19	–	32	(13)
March 2015	39,200	12	–	24	(12)
April 2015	323,040	97	–	196	(99)
May 2015	1,011,720	308	–	408	(100)
June 2015	300,000	92	–	181	(89)
July 2015	1,126,400	343	–	643	(300)
August 2015	12,550	3	–	5	(2)
November 2015	56,810	17	–	33	(16)
December 2015	1,473,500	462	–	899	(437)
For the year ended 31 December 2015	4,408,600	1,353	–	2,421	(1,068)
January 2016	**464,590**	**149**	**–**	**255**	**(106)**
February 2016	**4,351,540**	**1,304**	**–**	**2,203**	**(899)**
April 2016	**261,600**	**78**	**–**	**149**	**(71)**
May 2016	**102,180**	**28**	**–**	**45**	**(17)**
June 2016	**2,500**	**1**	**–**	**1**	**–**
July 2016	**44,660**	**12**	**–**	**17**	**(5)**
August 2016	**898,000**	**300**	**–**	**477**	**(177)**
September 2016	**1,505,010**	**446**	**–**	**684**	**(238)**
October 2016	**171,260**	**47**	**–**	**55**	**(8)**
November 2016	**910,200**	**467**	**–**	**630**	**(163)**
December 2016	**200,810**	**54**	**–**	**88**	**(34)**
For the year ended 31 December 2016	**8,912,350**	**2,886**	**–**	**4,604**	**(1,718)**

31 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 1(y).

(iii) Capital reserve

The capital reserve primarily comprises the following:

- the fair value of the actual or estimated number of unexercised share options granted to executives, employees and external consultants of the Group in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii);

- the consideration paid for the purchase of the Company's shares net of the fair value of shares granted to the Group's executives under the share award scheme (see note 30(b));

- the amount allocated to the unexercised equity component of convertible bonds (see note 1(p)(i)); and

- gain/loss on acquisition or dilution of interests in subsidiaries where the Group's interest in a subsidiary is increased/decreased without losing control (see note 1(d)).

(iv) Statutory general reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained profits to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

(e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was US$451,344,000 (2015: US$453,669,000).

(f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

31 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management (continued)

The Group defines "capital" as including all components of equity, obligations under finance leases, convertible bonds and non-current interest-bearing borrowings (including the current portion), less unaccrued proposed dividends based on the number of ordinary shares as at 31 December 2016. On this basis, the amount of capital employed at 31 December 2016 was US$571,824,000 (2015: US$543,345,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings and convertible bonds based on the Group's financial ratios relating to capital requirements. The Group complied with the imposed loan covenants for the year ended 31 December 2016. Except for the above, neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

32 DISPOSAL OF PARTIAL EQUITY INTERESTS IN SUBSIDIARIES

(a) MP Endo

On 3 December 2016, the Company and certain subsidiaries of the Group entered into several equity transfer agreements (the "Equity Transfer Agreements") and a capital increase agreement (the "Capital Increase Agreement") with Shanghai Lianmu Enterprise Management Centre (Limited Partnership) ("Lianmu"), Shanghai Jiushen Private Equity Limited (Limited Partnership) ("Jiushen") and Zhangjiang Science & Technology Venture Capital Co., Ltd. ("ZJ Sci-Tech Venture") (together as the "Investors").

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

Pursuant to the Equity Transfer Agreements, the Group agreed to transfer an aggregate of 12% equity interests in MP Endo to Lianmu and ZJ Sci-Tech Venture at a cash consideration totalling RMB217,800,000.

Pursuant to the Capital Increase Agreement, Jiushen agreed to subscribe for approximately 1.92% of the enlarged share capital of MP Endo at a consideration of RMB35,550,000 (equivalent to US$5,120,000).

Upon the completion of the Equity Transfer Agreements and the Capital Increase Agreement, the Group's effective equity interests in MP Endo will be approximately 71.60% and MP Endo will remain as a subsidiary of the Company. As at 31 December 2016, the Capital Increase Agreement was completed, and the Equity Transfer Agreements have yet to be completed. As at 31 December 2016, the Group held approximately 83.37% equity interests in MP Endo.

As the deemed disposal of partial equity interests of MP Endo to Jiushen didn't result in a loss of control by the Group, such disposal was treated as a transaction within the shareholders of MP Endo in their capacity as equity holders. Accordingly, the amount of US$4,060,000 being the difference between the consideration of RMB35,550,000 (equivalent to US$5,120,000) and the carrying amount of net assets in proportion of the disposed equity interests in MP Endo as at the date of disposal was credited to capital reserve of the Group.

32 DISPOSAL OF PARTIAL EQUITY INTERESTS IN SUBSIDIARIES (CONTINUED)

(b) MicroPort NeuroTech BVI and MicroPort NeuroTech Hong Kong

On 19 December 2016, the Group transferred 40% equity interests in MicroPort NeuroTech BVI to Lead Power Global Limited ("Lead Power") and Maxwell Maxcare Science Foundation Limited ("Maxwell Maxcare") at a consideration totalling US$2,000,000. Simultaneously, the Group transferred 20% equity interests in MicroPort NeuroTech Hong Kong to New Alliance at a consideration of US$2,000,000.

Lead Power's shareholders are the management members of the Company. Maxwell Maxcare is a substantial shareholder of the Company. New Alliance is a third party to the Group and has the same actual controller of Lianmu, who agreed to purchase partial equity interests in MP Endo as disclosed in note 32(a).

As at 31 December 2016, Lead Power, Maxwell Maxcare and New Alliance were yet to settle the above considerations. The unpaid considerations of US$4,000,000, had no fixed repayment term and were expected to be recovered within one year and recorded in other debtor under trade and other receivables in the consolidated statement of financial position.

(c) Other subsidiaries

During the year ended 31 December 2016, the Group transferred to a third party 3.61% and 9.25% equity interests in MP EP and MP CardioFlow at a consideration of RMB15,000,000 (equivalent to US$2,265,000) and RMB50,000,000 (equivalent to US$7,529,000), respectively. MP EP and MP CardioFlow remained the Company's subsidiaries as at 31 December 2016.

Such disposals were treated as transactions within the shareholders of respective subsidiaries in their capacity as equity holders. Accordingly, the amount of US$7,052,000, being the difference between the total considerations of US$9,794,000 and total carrying amounts of net assets in proportion of the disposed equity interest in MP EP and MP CardioFlow as at the respective date of disposal was credited to capital reserve of the Group.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay 50% deposits upfront and the remaining trade receivables are mainly due within 30 to 360 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 7% (2015: 9%) and 19% (2015: 22%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	**More than 1 year but less than 2 years US$'000**	**More than 2 years but less than 5 years US$'000**	**More than 5 years US$'000**	**Total US$'000**	**Carrying amount at 31 December US$'000**
Interest-bearing borrowings	**112,088**	**19,448**	**23,195**	**–**	**154,731**	**148,541**
Convertible bonds	**4,907**	**5,759**	**170,289**	**–**	**180,955**	**147,769**
Obligations under finance leases	**88**	**14**	**10**	**–**	**112**	**104**
Trade and other payables	**96,306**	**687**	**1,085**	**869**	**98,947**	**98,947**
	213,389	**25,908**	**194,579**	**869**	**434,745**	**395,361**

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	59,552	93,751	44,686	–	197,989	184,460
Convertible bonds	2,525	3,497	105,728	–	111,750	94,815
Obligations under finance leases	1,214	15	19	–	1,248	1,242
Trade and other payables	95,471	467	341	733	97,012	97,012
Other liabilities	7,533	–	–	–	7,533	7,260
	166,295	97,730	150,774	733	415,532	384,789

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings and convertible bonds. Borrowings issued at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings, cash at banks and deposits with banks at the end of the reporting period:

	2016		2015	
	Effective interest rate	**Amount US$'000**	Effective interest rate	Amount US$'000
Net fixed rate instruments:				
Deposits with banks	**0.30%-1.35%**	**983**	0.30%-1.60%	12,305
Interest-bearing borrowings	**4.35%**	**(18,020)**	–	–
Obligations under finance leases	**6.93%-8.26%**	**(104)**	2.56%-8.58%	(1,242)
		(17,141)		11,063
Net variable rate instruments:				
Cash at banks	**0%-1.10%**	**122,711**	0%-0.35%	87,645
Deposits with banks	**0.30%-1.71%**	**668**	0.35%-1.35%	2,494
Investment in convertible bonds	**16.78%**	**6,432**	–	–
Interest-bearing borrowings	**1.20%-7.66%**	**(130,521)**	2.22%-5.41%	(184,460)
Convertible bonds	**5.24%-9.52%**	**(147,769)**	5.21%	(94,815)
		(148,479)		(189,136)
		(165,620)		(178,073)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the year and retained profits by approximately US$955,071 and US$970,976, respectively (2015: decreased/increased the Group's profit for the year and retained profits by approximately US$1,443,000 and US$2,233,000, respectively).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2015.

(d) Currency risk

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables, payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and US$ and (ii) intra-group borrowings that are denominated in RMB, between the PRC subsidiaries, whose functional currency is RMB and overseas subsidiaries, whose functional currency is Hong Kong dollars or US$.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in US$)					
		2016			2015	
	Euros	**US$**	**RMB**	Euros	US$	RMB
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Trade and other receivables	**3,729**	**3,929**	**–**	4,655	2,558	–
Cash and cash equivalents	**325**	**2,971**	**876**	46	7,637	703
Deposits with banks	**–**	**–**	**–**	–	11,000	–
Trade and other payables	**(987)**	**(338)**	**(16)**	(1,289)	(1,439)	–
Amounts due (to)/from group companies	**(7,265)**	**22,874**	**(113,399)**	(7,093)	–	(2,581)
Amounts due from/(to) related parties	**–**	**1,329**	**(173)**	–	1,142	–
Other liabilities	**–**	**–**	**–**	–	–	(7,260)
Net exposure arising from recognised assets and liabilities	**(4,198)**	**30,765**	**(112,712)**	(3,681)	20,898	(9,138)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits US$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits US$'000
RMB (against US$)	**3%**	**(4,245)**	3%	(887)
	(3)%	**4,289**	(3)%	915
Euros (against US$)	**3%**	**91**	3%	81
	(3)%	**(91)**	(3)%	(81)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into US$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of the entities into the Group's presentation currency. The analysis has been performed on the same basis for 2015.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged an external valuer to perform valuations for the financial instruments, including the conversion option embedded in the Otsuka Loans. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at each interim and annual reporting date, and is reviewed and approved by the Group's management.

	Note	**Fair value at 31 December 2016**	**Fair value measurements as at 31 December 2016 categorised into**		
			Level 1	**Level 2**	**Level 3**
		US$'000	US$'000	US$'000	US$'000
Recurring fair value measurement					
Assets:					
Derivative financial assets:					
– Conversion option of the Lombard Convertible Bonds	*16*	3,499	–	–	3,499
Liabilities:					
Derivative financial liabilities:					
– Conversion option of the Otsuka Loans	*24(b)*	23	–	–	23

		Fair value at 31 December 2015	**Fair value measurements as at 31 December 2015 categorised into**		
			Level 1	**Level 2**	**Level 3**
		US$'000	US$'000	US$'000	US$'000
Recurring fair value measurement					
Liabilities:					
Derivative financial liabilities:					
– Conversion Option of the Otsuka Loans	*24(b)*	397	–	–	397

(Expressed in United States dollars unless otherwise indicated)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Volatility ratio
Conversion option of the Lombard Convertible Bonds	Binomial lattice model	Expected volatility	73.87%
Conversion option of the Otsuka Loans	Binomial lattice model	Expected volatility	47.12% (2015: 41.49%)

The fair value of conversion options embedded in the Lombard Convertible Bonds and the Otsuka Loans are determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2016, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's profit/(loss) by US$145,193 and US$237,302, respectively (2015: US$226,000 and US$177,000, respectively). The gain arising from the re-measurement of the conversion options of the Otsuka Loan and the Lombard Convertible Bonds is presented in "Other net income" in the consolidated statement of profit or loss.

The movement during the year in the balances of the Level 3 fair value measurements is disclosed in notes 16 and 24(b).

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 2015.

34 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 US$'000	2015 US$'000
Contracted for	**25,424**	22,081
Authorised but not contracted for	**64,992**	49,284
	90,416	71,365

Apart from above, as disclosed in note 17, as at 31 December 2016, the Group was committed to contribute a further investment of US$1,000,000 in MinInvasive in accordance with the Preferred Share Purchase Agreement.

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 US$'000	2015 US$'000
Within 1 year	**5,957**	6,967
After 1 year but within 5 years	**2,280**	5,927
At 31 December	**8,237**	12,894

The Group leases a number of properties and plants under operating leases. The leases typically run for an initial period of one to ten years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

35 CONTINGENT LIABILITIES

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

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

36 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid individuals as disclosed in note 8, is as follows:

	2016 **US$'000**	2015 US$'000
Salaries and other benefits	**2,176**	2,911
Discretionary bonuses	**1,317**	1,204
Retirement scheme contributions	**54**	50
Equity-settled share-based payment expenses	**1,784**	1,145
Cash-settled share-based payment expenses	**247**	767
	5,578	6,077

Total remuneration was included in staff costs (note 5(b)).

(b) Financing arrangement

As mentioned in note 24(b), the Company drew down the Otsuka Loans of US$200,000,000 from Otsuka Medical Devices for purpose of financing its acquisition of the OrthoRecon Business in January 2014 and fully repaid the Term A Loan and the Term C Loan in January 2015.

As at 31 December 2016, the outstanding balance due to Otsuka Medical Devices by the Group was US$40,355,000 (2015: US$38,270,000). Interest expenses and the fair value charge on the derivative component relating to the Otsuka Loans recognised in the consolidated statement of profit or loss during the year ended 31 December 2016 amounted to US$2,758,000 and US$374,000, respectively (2015: US$2,438,000 and US$195,000, respectively).

During 2016, the Group provided loans of US$4,359,000 to MicroPort Sorin CRM, which was fully repaid during the year. In addition, as mentioned in note 35, the Group issued a guarantee of RMB30,000,000 (equivalent to US$4,325,000) in respect of a banking facility to MicroPort Sorin CRM.

36 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sales to related parties

For the year ended 31 December 2016 and 2015, the Group entered into sales transactions with the following related parties:

Name of party	Relationship
JIMRO Co., Ltd. ("JIMRO")	Subsidiary of Otsuka Holdings Co., Ltd. ("Otsuka Holdings"), the ultimate controlling party of the Company
Thai Otsuka Pharmaceutical Co., Ltd. ("Thai Otsuka")	Subsidiary of Otsuka Holdings
Otsuka (Philippines) Pharmaceutical, Inc. ("Otsuka Philippines")	Subsidiary of Otsuka Holdings
P.T. Otsuka Indonesia ("Otsuka Indonesia")	Subsidiary of Otsuka Holdings
Otsuka Pakistan Ltd. ("Otsuka Pakistan")	Subsidiary of Otsuka Holdings
MicroPort Sorin CRM	Joint venture of the Group

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

	2016 US$'000	2015 US$'000
Sale of goods to:		
JIMRO	**130**	348
Thai Otsuka	**1,205**	994
Otsuka Philippines	**1,385**	1,561
Otsuka Indonesia	**406**	896
Otsuka Pakistan	**904**	819
MicroPort Sorin CRM	**–**	5
	4,030	4,623

	2016 US$'000	2015 US$'000
Trade debtors from:		
Thai Otsuka	**675**	272
Otsuka Philippines	**187**	279
Otsuka Indonesia	**112**	327
Otsuka Pakistan	**400**	330
MicroPort Sorin CRM	**69**	64
	1,443	1,272

Amounts due from related parties are unsecured, interest-free and expected to be recovered within one year.

36 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Other transactions with related parties

Particulars of the Group's other transactions with related parties are as follows:

	2016 US$'000	2015 US$'000
Purchase of goods from MicroPort Sorin CRM	**1,302**	2,136
Service fee charged by Maxwell Maxcare	**229**	201
Management services fee charged by We'Tron Capital Limited ("We'Tron") (note)	**180**	192
Rental fee charged by related parties	**233**	–
Disposal of partial equity interests in MicroPort Neuro Tech BVI to Lead Power (note 32(b))	**1,000**	–
Disposal of partial equity interests in MicroPort Neuro Tech BVI to Maxwell Maxcare (note 32(b))	**1,000**	–

Note: Pursuant to a management services agreement dated 1 January 2014, the Company has assigned We'Tron, which is a substantial shareholder of the Company, to provide management services regarding the Group's daily management and strategic development.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors.

37 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 US$'000	2015 US$'000
Non-current assets			
Investments in subsidiaries		**765,207**	742,409
Current assets			
Trade and other receivables		**40,647**	36,939
Cash and cash equivalents		**53,288**	7,798
		93,935	44,737
Current liabilities			
Trade and other payables		**129,378**	38,952
Interest-bearing borrowings		**40,355**	5,000
Derivative financial liabilities		**23**	397
Other current liabilities		**–**	7,260
		169,756	51,609
Net current liabilities		**(75,821)**	(6,872)
Total assets less current liabilities		**689,386**	735,537
Non-current liabilities			
Interest-bearing borrowings		**40,000**	129,196
Convertible bonds		**147,769**	94,815
Other payables		**20,188**	43,120
		207,957	267,131
NET ASSETS		**481,429**	468,406
CAPITAL AND RESERVES	*31(a)*		
Share capital		**14**	14
Reserves		**481,415**	468,392
TOTAL EQUITY		**481,429**	468,406

(Expressed in United States dollars unless otherwise indicated)

38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) On 10 March 2017, the Group entered into equity transfer agreements with two third parties, pursuant to which, the Group agreed to transfer an aggregate of 9.81% equity interests in MP Endo at a cash consideration of RMB181,500,000. Upon the completion of the transactions, MP Endo will remain as a subsidiary of the Group.

(b) On 29 March 2017, the directors proposed a final dividend. Further details are disclosed in note 31(b).

39 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate parent and the ultimate controlling party of the Group to be Otsuka Medical Devices and Otsuka Holdings which are both incorporated in Japan. Otsuka Holdings produces financial statements available for public use and Otsuka Medical Devices does not.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, Share-based payment: *Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 1(g) and 1(m). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL on which, the changes of the financial liability's own credit risk have a material impact, and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 9, Financial instruments (continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(x). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 15, Revenue from contracts with customers (continued)

(a) Timing of revenue recognition (continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 16, Leases

As disclosed in note 1(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 34(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to $8,237,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

MicroPort

MicroPort Scientific Corporation