INTERIM REPORT 2017

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

COMPANY PROFILE

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

The Company is people-oriented and is committed to improving human life through the practical application of innovative science. We continue to develop leading technologies and products for physicians, and affordable life-saving medical solutions for patients. We are a growing company 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 fulfil our commitment to the social harmony and continue to demonstrate entrepreneurial achievement and spirit of innovation.

We have a large and growing intellectual property assets and a strong research and development ("R&D") team. We work in close cooperation with recognized international physicians and scientists worldwide, to develop a range of products that meet the highest quality and clinical standards. The applied expertise of our R&D team ensures our latest products are always innovative, as we strive to provide state of the art medical technologies, deliver the next generation medical devices and offer treatments for chronic ailments.

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 1,800 issued patents, and a global workforce of over 3,100 employees, MicroPort is committed to its corporate vision.

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

Our commercial achievements that enable us to give back to the society, which leads to well-deserved success of the Company. Our commitment to social engagement and responsibility is an important aspect of our company culture and philosophy. MicroPort works diligently to build strong relationships with all our international partners and our stakeholders, because as a corporation, we believe that our community is an essential part of our business, and we strive to contribute in the best ways we can.

OUR VISION

Dedicated People Striving to Make a Patient Oriented Global Enterprises Capable of Leading Minimally Invasive and Other Emerging Medical Technologies.

OUR MISSION

We Continuously Innovate and Subsequently Commercialize the Best and Yet Affordable Therapeutic Solutions to Save and Reshape Lives.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Chunyang Shao

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. Chunyang Shao

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chunyang Shao *(Chairman)*
Ms. Weiwei Chen
Dr. Guoen Liu

REGISTERED OFFICE

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

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PLACE OF BUSINESS IN HONG KONG

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AUDITORS

KPMG, *Certified Public Accountants*

LEGAL CONSULTANT

Freshfields Bruckhaus Deringer

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COMPANY WEBSITE

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PRINCIPAL BANKERS

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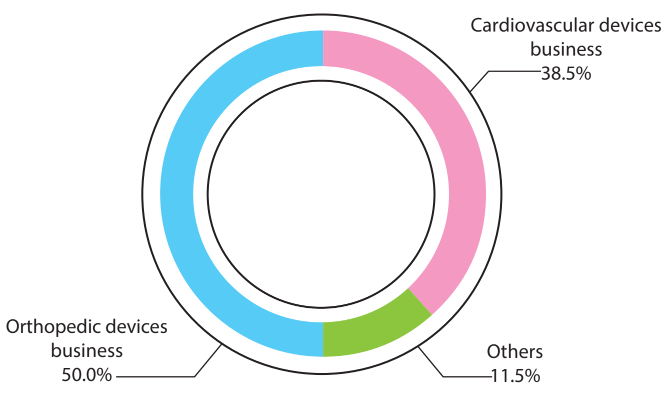
China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

FINANCIAL HIGHLIGHTS

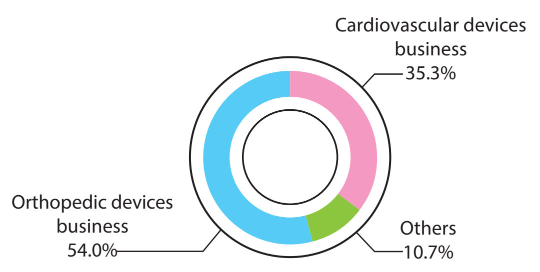
	Six months ended 30 June		
	2017 US$'000	2016 US$'000	Change %
Revenue	217,339	198,556	9.5%
Gross profit	158,344	136,961	15.6%
Profit for the period	20,614	5,535	272.4%
Profit attributable to equity shareholders of the Company	21,372	4,689	355.8%
Earnings per share –			
Basic (in cents)	1.50	0.33	354.5%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

REVENUE ANALYSIS

Revenue by Business Segment
For the Period Ended 30 June 2017



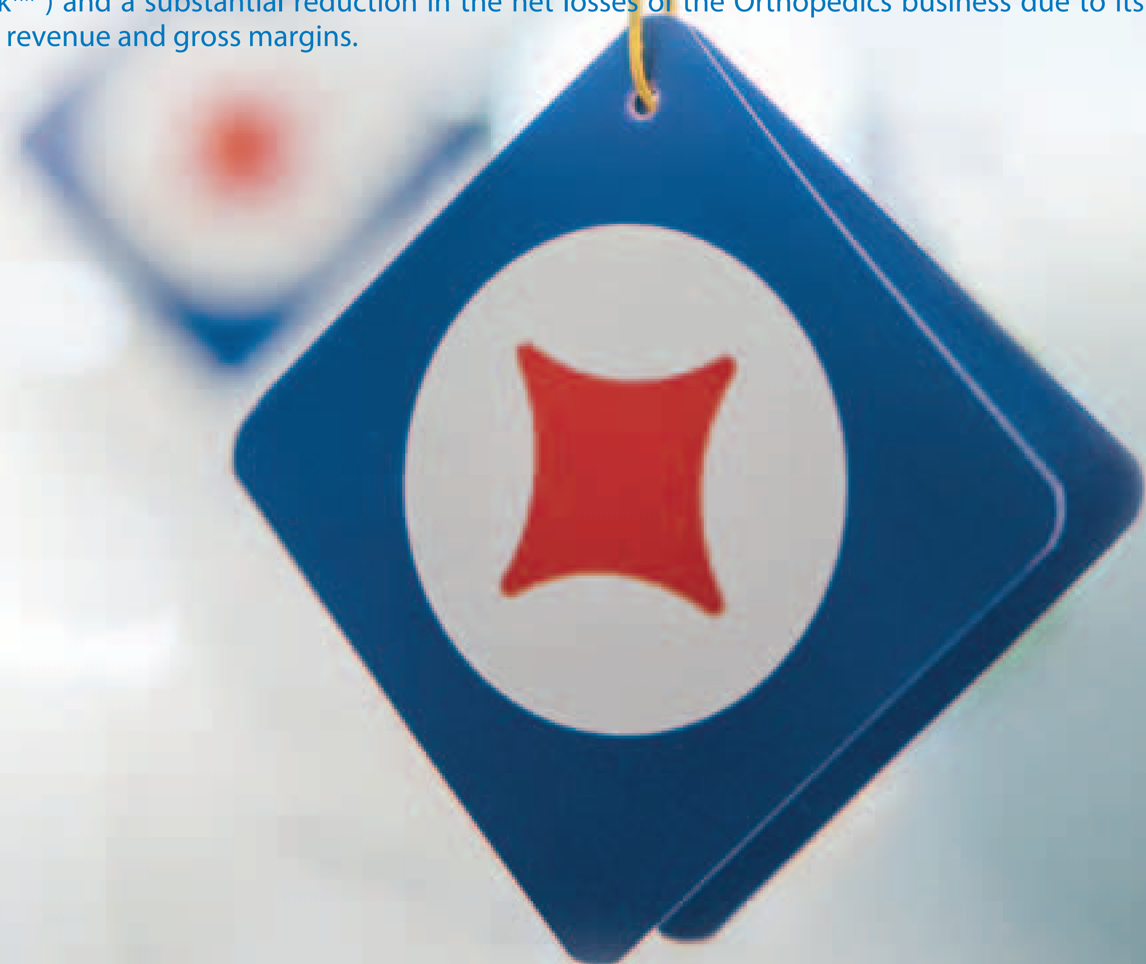
Revenue by Business Segment
For the Period Ended 30 June 2016



Orthopedics Cardiovascular Others

CEO STATEMENT

In the first half of 2017, China's medical devices industry underwent healthy and steady development due to the support of the government policy and the continued improvement in the structural conflicts of medical resources in China. This created great environment and momentum for the sustained and rapid development of the Company. In the international market, the European Union has issued a new medical devices act which has comprehensively tightened the regulatory requirements for medical devices sold in the European Union. This has imposed more stringent demands on the performance of domestic medical devices entering the international market, whilst also providing new opportunities for those international medical device companies, such as MicroPort, with outstanding creativity, high quality products and a standardized operation. For the six months ended 30 June 2017 (the "Reporting Period"), the Company grasped onto developmental opportunities of the industry, continued to expand its sales channels, advanced its in-house research and development ("R&D") projects and optimized its operations, enabling it to realize robust growth in its multiple segments. During the Reporting Period, the Company recorded operating revenue of US$217.3 million, representing a growth of 12.5% as compared to the corresponding period in 2016. The Company also recorded a net profit of US$20.6 million, representing a growth of 272.4% as compared to the corresponding period in 2016. This significant increase can be principally attributed to a significant growth in revenue from the cardiovascular and endovascular segments in the PRC market, and in particular, a significant revenue growth for our third generation drug eluting stent, the Firehawk™ Coronary Rapamycin Target Eluting Stent ("Firehawk™") and a substantial reduction in the net losses of the Orthopedics business due to its improved revenue and gross margins.



During the Reporting Period, our Orthopedics business continued to build the "Full Function, Faster™" corporate brand and continued to successfully execute its strategy on market promotion and sales portfolio improvement on the basis of strict control over operating expenses so as to recorded a revenue of US$108.8 million, representing a growth rate of 2.9% as compared to the corresponding period in 2016; this was the highest growth rate since the acquisition of the Orthopedics business in 2014. Globally, the revenue growth margin in most regions was beyond the market average. Especially, in both North America and Japan, the businesses realized growth rates of over 5% (excluding the foreign exchange impact) as compared to the corresponding period in 2016. The Japan business also reversed the negative sales trend of the past four years. Meanwhile, through a series of measures as controlling production input, replacing out-sourcing with internal production, and optimization of production processes on about 40 selected "Production Continuing Improvement Projects", the unit product cost was effectively reduced, and the gross profit margin was significantly increased. During the Reporting Period, we brought on board a new senior leadership team with abundant experiences for our Orthopedics business in China, which accelerated the promotion of the "Full Function, Faster™" concept in the Chinese market and continued to optimize its mix of products, allowing us to explore more applications of our unique minimally invasive technology so as to provide a solid foundation for the continued and sustainable growth of our Chinese Orthopedics business.

Due to the high market recognition of our brand and the quality of our new-generation products, our cardiovascular business maintained its rapid growth during the first half of 2017, realizing a growth rate of 24.6% as compared to the same period in 2016. This further consolidated our leading position in the cardiovascular device market in China. The drug eluting stent ("DES") business made an outstanding contribution to this; the Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™") and the Firehawk™ recorded an increase in domestic sales of 3.9% and 130.4% respectively compared to the corresponding period in 2016. Our international DES business also achieved encouraging results, with a growth in sales revenue of 55.0% as compared to the same period in 2016 of which the revenue growth rate of Firehawk™ is up to 128.8%. The Firehawk™ has been registered in 30 countries including Thailand, Indonesia and India.

As an innovative medical device company, continuing to carry out and advance R&D projects is the core driver for our continued growth. In the first half of 2017, the Company continued to carry forward the R&D projects, achieving milestones for many of them; this has provided long-term momentum for the sustained development of the Company. As at the date of the interim report, seven products obtained approval for market launch from the China Food and Drug Administration (the "CFDA"), including the Rega™ Family Implantable Pacemakers produced by our joint venture, the Castor™ Thoracic Branch Stent-Graft System, the Firefighter™ PTCA Balloon Dilatation Catheter, the Reewarm™ Peripheral Balloon Dilation Catheter, the FireMagic™ 3D Ablation Catheter, the OptimAblate™ Irrigation Pump, and the PathBuilder™ Transseptal Guiding Introducer and Needle. Two products were approved for "fast-track" review process by the CFDA as innovative medical devices, these were the Minos™ Ultra-Low-Profile AAA Stent-Graft System and the Flashpoint™ Renal Artery RF Ablation Catheter. Eight products are now at the clinical trial stage, including the post-market trial of the Firehawk™ TARGET AC in Europe and Malaysia, the Future II Clinical trial of the Firesorb™ Bioresorbable Rapamycin Target Eluting Coronary Scaffold System, the pre-marketing clinical trial of the Vitaflow™ Transcatheter Aortic Valve and Delivery System, the Minos™ AAA Stent-Graft System, the Fontus™ branched surgical stent, the Reewarm™ PTX drug-coated balloon and the Pacemaker pacing leads and pacing system analyzer. The R&D of surgical robot has made stable progress and achieved crucial breakthrough in key product orientations. In addition to this, following on from the surgical robot techniques that we have developed and integrated into the planning for our Orthopedics and Joint businesses, the Company has begun to develop a joint replacement robot and has obtained a "13th Five-Year Plan" special program subsidy from the Ministry of Science and Technology of the PRC.

Furthermore, we achieved a number of other important milestones on the strategic corporate finance front. Our subsidiaries of Endovascular business and Transcatheter Aortic Valve Implantation business brought in several renowned strategic partners with valuation of RMB1.815 billion and 2.1 billion, respectively, which enhanced the recognition by capital market for the fair value of our subsidiary businesses and will be a capital boost for the further development of our subsidiaries.

Looking forward, taking into account the ageing of the global population, the increase in chronic diseases and the enhancement of people's health awareness, we believe that the Company will be faced with a new round of opportunities for rapid development. Our management team will focus on enhancing operational efficiency, integrating superior resources, optimizing the products portfolio and expanding sales channels, strive to deliver high quality and affordable medical devices to more patients and build our MicroPort brand worldwide so that it becomes synonymous with quality, innovation and, above all, integrity.

(Note: The revenue growth rates mentioned above are given on a basis which is adjusted for excluding the impact of foreign currency translation. The revenue growth rates in US$ are available in the main body of this interim report.)

MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS OVERVIEW

OVERVIEW

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

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

SEGMENT REVIEW

– Orthopedics Business on a Steady Upward Trend

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

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

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

– **Continued Strong Growth of Cardiovascular Devices Business**

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

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

– **Sustaining Steady Growth of Endovascular Business**

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

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

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

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

– **Significant Milestones also Achieved in Other Businesses**

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

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

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

– Progress in Major Research and Development Projects

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

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

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

2. FINANCIAL REVIEW

OVERVIEW

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

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

REVENUE

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

* Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue for the six months ended 30 June 2017 was US$217.3 million, increasing by 9.5% as compared to US$198.6 million for the six months ended 30 June 2016. Our reported revenue was adversely impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries to US$, the presentation currency of the Group due to the strengthening of US$ against RMB during the Reporting Period as compared to the corresponding period of last year. Our revenue growth rate was 12.5% (excluding the foreign exchange impact). Such increase was primarily driven by strong sales performance of the cardiovascular business. The following discussion is based on our seven major business segments.

– Orthopedics Devices Segment

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

– Cardiovascular Devices Segment

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

– Endovascular Devices Segment

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

– EP Devices Segment

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

– Neurovascular Devices Segment

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

– Surgical Devices Segment

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

– Diabetes Care and Endocrinal Devices Segment

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

COST OF SALES

For the six months ended 30 June 2017, our cost of sales was US$59.0 million, representing a decrease of 4.2% as compared to US$61.6 million for the six months ended 30 June 2016. Such decrease was primarily attributable to lower manufacturing unit cost.

GROSS PROFIT AND GROSS PROFIT MARGIN

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

OTHER REVENUE AND NET (LOSS)/INCOME

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

GAIN ON DISPOSAL OF SUBSIDIARIES

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

RESEARCH AND DEVELOPMENT COSTS

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

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER OPERATING COSTS

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

FINANCE COSTS

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

INCOME TAX

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

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

CAPITAL MANAGEMENT

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, we had US$103.3 million of cash and cash equivalents on hand, as compared to US$123.7 million as of 31 December 2016. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

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

NET CURRENT ASSETS

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

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL EXPENDITURE

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

CHARGE ON ASSETS

As at 30 June 2017, the Group had set mortgage on its manufactory building, headquarter building and land use right held for own use for the purpose of securing a long term loan from Shanghai Municipal Financial Administration with a carrying value of US$0.2 million and bank loans of US$46.3 million.

CONTINGENT LIABILITIES

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

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

FUTURE INVESTMENT PLANS AND EXPECTED FUNDING

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

3. HUMAN RESOURCES AND TRAINING

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

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

People is regarded as our most important asset and overriding priority. The objective of the Group's human resources 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.

OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES (THE "SHARES") AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, 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 of the Company ("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	43,913,636	1	Beneficial owner	Long position	3.04%

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 Schemes".

Save as disclosed above, as at 30 June 2017, 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 OR SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, 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 would need to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

INTERESTS OR SHORT POSITIONS 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	26.52
Otsuka Medical Devices Co., Ltd.	382,994,120	1	Beneficial owner	Long position	26.52
Shanghai Zhangjiang (Group) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.35
Shanghai Zhangjiang Science and Technology Investment Co.	221,748,050	2	Interest of controlled corporation	Long position	15.35
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.35
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.35
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited	221,748,050	2	Interest of controlled corporation	Long position	15.35
Shanghai ZJ Hi-tech Investment Corporation	221,748,050	2	Interest of controlled corporation/ Beneficial Owner	Long position	15.35
Shanghai ZJ Holdings Limited	221,748,050	2	Interest of controlled corporation	Long position	15.35
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	2	Beneficial Owner	Long position	14.86
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	15.03
We'Tron Capital Limited	217,110,000	3	Beneficial owner	Long position	15.03
Shanghai We'Tron Capital Corp	217,110,000	3	Interest of controlled corporation	Long position	15.03
CAP IV, L.L.C.	207,181,818	4	Interest of controlled corporation	Long position	14.34
	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	14.34
	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	14.34
	42,140,000	4	Interest of controlled corporation	Short position	2.92
CAP IV Coinvestment, L.P.	207,181,818	4	Interest of controlled corporation	Long position	14.34
	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	14.34
	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	8.54

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
GIC Special Investments Pte Ltd	123,331,927	5	Interest of controlled corporation	Long position	8.54
GIC (Ventures) Pte Ltd	123,331,927	5	Interest of controlled corporation	Long position	8.54
Owap Investment Pte Ltd	123,331,927	5	Person having a security interest in shares	Long position	8.54
Mondrian Investment Partners Limited	87,995,000		Investment Manager	Long Position	6.09

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 382,994,120 Shares held by Otsuka Medical Devices Co., Ltd.

(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 Shanghai Zhangjiang Health Solution Holdings Limited. The interest in 221,748,050 Shares relates to the same block of Shares in long position 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	14.86
Shanghai ZJ Hi-tech Investment Corporation	7,042,580	0.49
Total	221,748,050	15.35

(3) Maxwell Maxcare Science Foundation Limited holds 79% interest 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 each holds 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 Private Limited holds 100% interest of GIC Special Investments Pte Ltd. which in turn holds 100% interest of GIC (Ventures) Pte Ltd, which in turns holds 100% interest of Owap Investment Pte Ltd. Therefore, Shares held by GIC Private Limited, GIC Special Investments Pte Ltd and GIC (Ventures) Pte Ltd are deemed to have 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.

Save as disclosed above, as at 30 June 2017, 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 need 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed in note 18 to the unaudited interim financial report as set out in page 46 of this interim report, the Group did not have any material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2017.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the six months ended 30 June 2017, 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 (as defined under the Listing Rules) that had competed or might compete directly or indirectly 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 the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the period of six months ended 30 June 2017.

SHARE AWARD SCHEME

The Board approved and adopted the Share Award Scheme as a means of recognizing the contributions of selected employees of the Group.

Pursuant to the Share Award Scheme, the Board may, from time to time and at its absolute discretion, award selected employees of the Group by granting share of the Company ("Awarded Shares") during the duration of the Share Award Scheme. The Board shall cause to be paid the purchase price for the Awarded Shares and the related expenses to the Trustee of the Share Award Scheme, who will purchase the Awarded Shares on the Stock Exchange at the prevailing market price. The Awarded Shares are held on trust by the Trustee until the Awarded Shares are vested in accordance with the provisions of the Share Award Scheme. The Board shall not make any further award of Awarded Shares which will result in the nominal value of the Share awarded by the Board under the Share Award Scheme exceeding 10% of issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected employee of the Group shall not exceed 1% of the issued share capital of the Company from time to time. For further details of the Share Award Scheme, please refer to the announcement of the Company dated 15 September 2011.

Pursuant to the Share Award Scheme, the Trustee of the Share Award Scheme purchased a total of 5,432,000 Shares at cash consideration of US$3,880,000 on the Stock Exchange during the six months ended 30 June 2017.

OTHER INFORMATION

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, authorized 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 Shares and 65,091,570 Shares for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 30 June 2017, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870 Shares, which represented 11.61% 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 12,766,060 Shares.

The administrator of the Pre-IPO Share Option Scheme (the "Administrator") 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").

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 30 June 2017, 109,135,604 Shares were available for issue under the Share Option Scheme, which represented 7.55 % 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 the grant of such share option. The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of such share 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 not be 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.

The status of the share options granted up to 30 June 2017 is as follows:

Category of participants	As at 31 December 2016	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 30 June 2017	Date of Grant of Share Options	Vesting Period	Exercise Period	Exercise Price	Share Price of the Company as at the date of grant of share options	Share Price of the Company Immediately before the exercise date of share options (Note)
Directors												**N/A**
	2,500,000	–	–	–	–	2,500,000	9 Jul 2010	9 Jul 2010 – 9 Jul 2014	9 Jul 2011 – 8 Jul 2020	USD0. 3062	N/A	
Zhaohua Chang												
	13,500,000	–	–	–	–	13,500,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2021	20 Jan 2016 – 19 Jan 2025	HKD3. 21	HKD3.170	
	14,100,000	–	–	–	–	14,100,000	30 Mar 2016	30 Mar 2016 – 30 Mar 2021	30 Mar 2017 – 29 Mar 2026	HKD3. 482	HKD3.36	
		13,500,000	–	–	–	13,500,000	23 Jan 2017	23 Jan 2017 – 23 Jan 2022	23 Jan 2022 – 22 Jan 2027	HKD5. 628	HKD5.45	
		313,636	–	–	–	313,636	30 Mar 2017	30 Mar 2017 – 30 Mar 2022	30 Mar 2022 – 29 Mar 2027	HKD5. 798	HKD5.70	
In Aggregate	**30,100,000**	**13,813,636**	–	–	–	**43,913,636**						
Consultants												**HKD5. 368**
	1,000,000	–	1,000,000	–	–	–	17 May 2007	17 May 2007 – 17 May 2011	17 May 2008 – 16 May 2017	USD0. 3062	N/A	
	500,000	–	–	–	–	500,000	14 Jun 2007	24 Sep 2010 – 24 Sep 2014	24 Sep 2011 – 23 Sep 2020	USD0. 3062	N/A	
In Aggregate	**1,500,000**	**–**	**1,000,000**	**–**	**–**	**500,000**						

Category of participants	As at 31 December 2016	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 30 June 2017	Date of Grant of Share Options	Vesting Period	Exercise Period	Exercise Price	Share Price of the Company as at the date of grant of share options	Share Price of the Company Immediately before the exercise date of share options (Note)
Employees												**HKD6. 008**
	446,730	–	446,730	–	–	–	2 Mar 2007	2 Mar 2007 – 14 Feb 2011	15 Feb 2008 – 24 Jan 2017	USD0. 275	N/A	
	620,570	–	574,460	40,280	–	5,830	23 Apr 2007	23 Apr 2007 – 1 Mar 2013	23 Apr 2008 – 22 Apr 2017	USD0. 275	N/A	
	490,000	–	459,000	–	–	31,000	14 Jun 2007	23 Sep 2007 – 23 Sep 2012	23 Sep 2008 – 22 Sep 2017	USD0. 3062	N/A	
	500,000	–	–	–	–	500,000	25 Jul 2008	25 Jul 2008 – 25 Jul 2012	25 Jul 2009 – 24 Jul 2018	USD0. 3062	N/A	
	580,000	–	–	–	–	580,000	8 Jul 2010	1 Aug 2010 – 1 Aug 2014	1 Aug 2011 – 7 Jul 2020	USD0. 3062	N/A	
	160,500	–	–	–	–	160,500	8 Jul 2010	8 Jul 2010 – 8 Jul 2014	8 Jul 2011 – 7 Jul 2020	USD0. 3062	N/A	
	8,898,730	–	1,500,000	–	–	7,398,730	9 Jul 2010	9 Jul 2010 – 9 Jul 2014	9 Jul 2011 – 8 Jul 2020	USD0. 3062	N/A	
	3,590,000	–	–	–	–	3,590,000	9 Aug 2010	9 Aug 2010 – 31 Aug 2014	1 Sep 2011 – 8 Aug 2020	USD0. 3062	N/A	
	150,000	–	–	–	–	150,000	17 Oct 2011	17 Oct 2011 – 17 Dec 2018	17 Oct 2012 – 16 Oct 2021	HKD4. 790	HKD4. 790	
	375,000	–	250,000	–	–	125,000	1 Nov 2011	1 Nov 2011 – 1 Nov 2011	1 Nov2012 – 31 Oct 2021	HKD4. 470	HKD4. 470	
	7,200,000	–	–	–	200,000	7,000,000	28 Aug 2012	28 Aug 2018 – 28 Aug 2019	28 Aug 2019 – 27 Aug 2022	HKD3. 350	HKD3. 350	
	500,000	–	–	–	–	500,000	7 Sep 2012	7 Sep 2012 – 5 Sep 2017	6 Sep 2013 – 6 Sep 2022	HKD3. 330	HKD3. 330	
	346,000	–	200,000	–	–	146,000	22 Oct 2012	22 Oct 2012 – 22 Oct 2019	22 Oct 2013 – 12 Oct 2022	HKD4.210	HKD4. 210	
	8,200,000	–	–	–	200,000	8,000,000	10 Dec 2012	10 Dec 2012 – 10 Dec 2019	10 Dec 2019 – 9 Dec 2022	HKD4. 600	HKD4. 600	
	250,000	–	–	–	–	250,000	28 Aug 2013	28 Aug 2013 – 28 Aug 2018	28 Aug 2014 – 27 Aug 2023	HKD4. 970	HKD4. 970	
	400,000	–	–	–	–	400,000	9 Dec 2013	9 Dec 2013 – 9 Dec 2017	9 Dec 2014 – 8 Dec 2023	HKD5. 590	HKD5. 400	
	500,000	–	–	–	–	500,000	28 Aug 2014	28 Aug 2014 – 28 Aug 2019	28 Aug 2015 – 27 Aug 2024	HKD4. 718	HKD4. 520	
	1,500,000	–	100,000	–	200,000	1,200,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2019	20 Jan 2016 – 19 Jan 2025	HKD3. 210	HKD3. 170	

Category of participants	As at 31 December 2016	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 30 June 2017	Date of Grant of Share Options	Vesting Period	Exercise Period	Exercise Price	Share Price of the Company as at the date of grant of share options	Share Price of the Company Immediately before the exercise date of share options (Note)
	5,760,000	–	300,000	–	310,000	5,150,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2020	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	6,240,000	–	–	–	–	6,240,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2021	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	300,000	–	–	–	–	300,000	30 Jun 2015	30 Jun 2015 – 30 Jun 2018	30 Jun 2016 – 29 Jun 2025	HKD3.900	HKD3.820	
	25,370,000	–	80,000	–	1,300,000	23,990,000	30 Mar 2016	30 Mar 2016 – 30 Mar 2021	30 Mar 2017 – 29 Mar 2026	HKD3.482	HKD3.36	
	700,000	–	–	–	–	700,000	27 Jun 2016	27 Jun 2016 – 27 Jun 2021	27 Jun 2017 – 26 Jun 2026	HKD3.850	HKD3.850	
	750,000	–	–	–	–	750,000	1 Sep 2016	1 Sep 2016 – 1 Sep 2021	1 Sep 2017 – 31 Aug 2026	HKD4.950	HKD4.950	
		500,000	–	–	–	500,000	23 Jan 2017	23 Jan 2017 – 23 Jan 2022	23 Jan 2018 – 22 Jan 2027	HKD5.628	HKD5.45	
		9,340,000	–	–	300,000	9,040,000	23 Jan 2017	23 Jan 2022	23 Jan 2022 – 22 Jan 2027	HKD5.628	HKD5.45	
		294,555	–	–	–	294,555	30 Mar 2017	30 Mar 2017 – 30 Mar 2020	30 Mar 2018 – 29 Mar 2027	HKD5.798	HKD5.70	
		2,669,281	–	–	182,868	2,486,413	30 Mar 2017	30 Mar 2022	30 Mar 2022 – 29 Mar 2027	HKD5.798	HKD5.70	
In Aggregate	**73,827,530**	**12,803,836**	**3,910,190**	**40,280**	**2,692,868**	**79,988,028**						
Total	**105,427,530**	**26,617,472**	**4,910,190**	**40,280**	**2,692,868**	**124,401,664**						

Note:

The share price of the Company disclosed is the weighted average closing price of the shares immediately before the exercise dates of share options during the period.

OTHER INFORMATION

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at six months ended 30 June 2017, save as provisions as addressed below, the Company has complied with all the applicable code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

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

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend to the Shareholders for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2017 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the Shareholders.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

The Audit Committee has adopted the terms of reference which are in line with the CG Code, which has been revised on 27 June 2016 and has been published on the websites of the Stock Exchange and the Company. The principal duties of the Audit Committee include review and supervision of the Group's financial reporting system, risk management system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company.

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

NOMINATION COMMITTEE

The Company has established the Nomination Committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The purposes of the Nomination Committee are to identify and nominate suitable candidates for the appointment of the Directors and making recommendations to the Board on succession planning for the Directors.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The purposes of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and their understanding of the Group's business, performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the informed 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 the PRC 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 annual general meeting and other relevant Shareholder meetings to answer questions at general meetings.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

As at 30 June 2017 and up to the date of this interim report, there were no changes to the information required to be disclosed by the Directors pursuant to Rule 13.51B of the Listing Rules where applicable.

OTHER INFORMATION

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2017 containing all the relevant information required by the Listing Rules has been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.microport.com.cn).

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

Shanghai, The PRC
24 August 2017

INDEPENDENT AUDITOR'S REPORT

Review report to the board of directors of MicroPort Scientific Corporation
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 28 to 52 which comprises the consolidated statement of financial position of MicroPort Scientific Corporation (the "Company") as of 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

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

24 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	Six months ended 30 June	
		2017	2016
		US$'000	US$'000
Revenue	*3*	**217,339**	198,556
Cost of sales		**(58,995)**	(61,595)
Gross profit		**158,344**	136,961
Other revenue	*4*	**1,920**	2,939
Other net (loss)/gain	*4*	**(4,442)**	2,145
Research and development costs		**(25,708)**	(24,161)
Distribution costs		**(63,707)**	(62,038)
Administrative expenses		**(31,264)**	(31,681)
Other operating costs		**(1,098)**	(1,728)
Profit from operations		**34,045**	22,437
Finance costs	*5(a)*	**(7,004)**	(8,264)
Gain on disposal of subsidiaries	*18(b)*	**6,531**	–
Share of losses of associates		**(3,279)**	–
Share of losses of a joint venture		**(2,532)**	(1,768)
Profit before taxation	*5*	**27,761**	12,405
Income tax	*6*	**(7,147)**	(6,870)
Profit for the period		**20,614**	5,535
Attributable to:			
Equity shareholders of the Company		**21,372**	4,689
Non-controlling interests		**(758)**	846
Profit for the period		**20,614**	5,535
Earnings per share	*7*		
– Basic (in cents)		**1.50**	0.33
– Diluted (in cents)		**1.46**	0.33

The notes on pages 35 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

The notes on pages 35 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	At 30 June 2017 US$'000	At 30 June 2017 US$'000	At 31 December 2016 US$'000	At 31 December 2016 US$'000
Non-current assets					
Investment properties	*8*		**5,774**		5,720
Other property, plant and equipment	*8*		**254,538**		248,885
Land use rights	*8*		**15,831**		15,638
			276,143		270,243
Intangible assets	*8*		**74,044**		68,152
Prepayments for non-current assets			**2,098**		2,010
Goodwill			**54,458**		54,458
Interest in associates			**21,494**		11,432
Interest in a joint venture			**–**		676
Available-for-sale securities			**2,000**		2,000
Deferred tax assets			**5,272**		4,739
Other non-current assets			**3,761**		3,364
			439,270		417,074
Current assets					
Inventories	*9*	**110,606**		100,863	
Trade and other receivables	*10*	**142,970**		128,752	
Pledged deposits and time deposits	*11*	**803**		668	
Cash and cash equivalents	*12*	**103,325**		123,694	
Derivative financial assets		**3,237**		3,499	
		360,941		357,476	
Current liabilities					
Trade and other payables	*13*	**102,852**		96,858	
Interest-bearing borrowings	*14*	**53,776**		108,456	
Income tax payable		**6,661**		4,621	
Derivative financial liabilities		**–**		23	
Obligations under finance leases		**48**		81	
		163,337		210,039	
Net current assets			**197,604**		147,437
Total assets less current liabilities			**636,874**		564,511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	At 30 June 2017		At 31 December 2016	
		US$'000	US$'000	US$'000	US$'000
Non-current liabilities					
Interest-bearing borrowings	*14*	**42,666**		40,085	
Deferred income	*15*	**25,515**		24,231	
Convertible bonds	*16*	**150,683**		147,769	
Other payables		**3,708**		2,664	
Deferred tax liabilities		**3,507**		3,283	
			226,079		218,032
Net assets			**410,795**		346,479
Capital and reserves	*17*				
Share capital			**14**		14
Reserves			**394,607**		332,895
Total equity attributable to equity shareholders of the Company			**394,621**		332,909
Non-controlling interests			**16,174**		13,570
Total equity			**410,795**		346,479

Approved and authorised for issue by the board of directors on 24 August 2017.

Zhaohua Chang	**Jonathan H. Chou**
Chairman	*Director*

The notes on pages 35 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Attributable to equity shareholders of the Company								
	Note	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 the six months ended 30 June 2016:										
Profit for the period		–	–	–	–	–	4,689	4,689	846	5,535
Other comprehensive income		–	–	(5,359)	–	–	–	(5,359)	(129)	(5,488)
Total comprehensive income		–	–	(5,359)	–	–	4,689	(670)	717	47
Capital contribution from non-controlling interests		–	–	–	2,017	–	–	2,017	703	2,720
Transfer between reserves		–	–	–	(4,845)	–	4,845	–	–	–
Equity-settled share-based transactions	*17(b)*	–	–	–	1,123	–	–	1,123	–	1,123
Equity component of convertible bonds		–	–	–	17,485	–	–	17,485	–	17,485
Shares issued under share option scheme	*17(b)*	–	3,295	–	(1,112)	–	–	2,183	–	2,183
Shares purchased under share award scheme	*17(c)*	–	–	–	(2,533)	–	–	(2,533)	–	(2,533)
Shares granted under share award scheme		–	–	–	2,637	–	–	2,637	–	2,637
Balance at 30 June 2016 and 1 July 2016		14	245,149	(4,404)	37,719	21,115	35,168	334,761	6,729	341,490
Changes in equity for the six months ended 31 December 2016:										
Profit for the period		–	–	–	–	–	9,452	9,452	82	9,534
Other comprehensive income		–	–	(23,716)	–	–	–	(23,716)	(380)	(24,096)
Total comprehensive income		–	–	(23,716)	–	–	9,452	(14,264)	(298)	(14,562)
Capital contribution from non-controlling interests		–	–	–	11,092	–	–	11,092	7,811	18,903
Equity-settled share-based transactions		–	–	–	1,672	–	–	1,672	–	1,672
Appropriation of statutory general reserve		–	–	–	–	775	(775)	–	–	–
Shares issued under share option scheme		–	1,309	–	(606)	–	–	703	–	703
Shares purchased under share award scheme		–	–	–	(3,241)	–	–	(3,241)	–	(3,241)
Shares issued under the settlement of other current liabilities		–	1,973	–	–	–	–	1,973	–	1,973
Shares granted under share award scheme		–	–	–	213	–	–	213	–	213
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 (unaudited)
(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 2017		14	248,431	(28,120)	46,849	21,890	43,845	332,909	13,570	346,479
Changes in equity for the six months ended 30 June 2017:										
Profit for the period		–	–	–	–	–	21,372	21,372	(758)	20,614
Other comprehensive income		–	–	14,127	–	–	–	14,127	332	14,459
Total comprehensive income		–	–	14,127	–	–	21,372	35,499	(426)	35,073
Capital contribution from non-controlling interests		–	–	–	125	–	–	125	255	380
Disposal of equity interests in subsidiaries	18	–	–	–	25,842	–	–	25,842	2,775	28,617
Equity-settled share-based transactions	17(b)	–	–	–	2,068	–	–	2,068	–	2,068
Shares issued under share option scheme	17(b)	–	1,486	–	(369)	–	–	1,117	–	1,117
Shares purchased under share award scheme	17(c)	–	–	–	(3,880)	–	–	(3,880)	–	(3,880)
Shares granted under share award scheme		–	–	–	4,451	–	–	4,451	–	4,451
Dividends approved in respect of the previous year	17(a)	–	–	–	–	–	(3,510)	(3,510)	–	(3,510)
Balance at 30 June 2017		14	249,917	(13,993)	75,086	21,890	61,707	394,621	16,174	410,795

The notes on pages 35 to 52 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

	Note	Six months ended 30 June	
		2017	2016
		US$'000	US$'000
Operating activities			
Cash generated from operations		**45,060**	38,104
Income tax paid		**(5,682)**	(2,381)
Income tax refund received		**2,955**	–
Net cash generated from operating activities		**42,333**	35,723
Investing activities			
Payments for purchase of property, plant and equipment		**(24,107)**	(23,042)
Other cash flows arising from investing activities		**(11,657)**	(12,221)
Net cash used in investing activities		**(35,764)**	(35,263)
Financing activities			
Repayments of the Otsuka Loans	*14(b)*	**(40,000)**	–
Net proceeds from the convertible bonds		**–**	64,837
Repayments of other interest-bearing borrowings		**(15,153)**	(45,000)
Proceeds from other interest-bearing borrowings, net of transaction costs		**3,001**	15,080
Proceeds from disposal of partial equity interests in subsidiaries, net of relevant taxes and expenses		**28,417**	–
Other cash flows arising from financing activities		**(4,880)**	(4,482)
Net cash (used in)/generated from financing activities		**(28,615)**	30,435
Net (decrease)/increase in cash and cash equivalents		**(22,046)**	30,895
Cash and cash equivalents at 1 January	*12*	**123,694**	99,467
Effect of foreign exchange rate changes		**1,677**	(1,260)
Cash and cash equivalents at 30 June	*12*	**103,325**	129,102

The notes on pages 35 to 52 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United States dollars unless otherwise indicated)

1 BASIS OF PREPARATION

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

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

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

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

This interim financial report is unaudited, but has been reviewed by the audit committee of the Company and approved for issue by the Board of Directors on 24 August 2017. The interim financial report has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the board of directors is included on page 27.

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

2 CHANGES IN ACCOUNTING POLICIES

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

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

3 SEGMENT REPORTING

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

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

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

	Six months ended 30 June 2017							
	Orthopedics devices business US$'000	Cardiovascular devices business US$'000	Endovascular devices business US$'000	Electrophysiology devices business US$'000	Neurovascular devices business US$'000	Surgical management business US$'000	Diabetes care and endocrinal business US$'000	Total US$'000
Revenue from external customers								
– Sales of medical devices	108,771	83,315	12,181	3,526	5,747	2,862	715	217,117
– Rental income	-	159	-	-	63	-	-	222
	108,771	83,474	12,181	3,526	5,810	2,862	715	217,339
Reportable segment net (loss)/profit	(9,367)	36,475	3,227	(1,342)	822	(1,307)	(756)	27,752

	At 30 June 2017							
	Orthopedics devices business US$'000	Cardiovascular devices business US$'000	Endovascular devices business US$'000	Electrophysiology devices business US$'000	Neurovascular devices business US$'000	Surgical management business US$'000	Diabetes care and endocrinal business US$'000	Total US$'000
Reportable segment assets	392,560	354,380	45,874	17,582	17,740	19,805	11,281	859,222
Reportable segment liabilities	141,078	104,592	3,997	8,680	2,858	15,887	-	277,092

3 SEGMENT REPORTING (CONTINUED)

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

	Six months ended 30 June 2016							
	Orthopedics devices business US$'000	Cardiovascular devices business US$'000	Endovascular devices business US$'000	Electrophysiology devices business US$'000	Neurovascular devices business US$'000	Surgical management business US$'000	Diabetes care and endocrinal business US$'000	Total US$'000
Revenue from external customers								
– Sales of medical devices	107,171	70,114	10,450	2,679	4,336	2,921	885	198,556
Reportable segment net (loss)/profit	(15,613)	29,804	4,810	(1,188)	1,571	(2,282)	(674)	16,428

	At 31 December 2016							
	Orthopedics devices business US$'000	Cardiovascular devices business US$'000	Endovascular devices business US$'000	Electrophysiology devices business US$'000	Neurovascular devices business US$'000	Surgical management business US$'000	Diabetes care and endocrinal business US$'000	Total US$'000
Reportable segment assets	379,682	321,181	46,378	18,185	15,399	20,831	3,688	805,344
Reportable segment liabilities	128,272	116,300	4,037	8,208	1,756	16,284	6,645	281,502

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

(b) Reconciliations of reportable segment profit or loss

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

4 OTHER REVENUE AND NET (LOSS)/GAIN

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Other revenue		
Government grants	**1,016**	2,660
Interest income on bank deposits	**367**	279
Interest income on the convertible bonds (note 23(b)(iv))	**537**	–
	1,920	2,939
Other net (loss)/gain		
Net foreign exchange (loss)/gain	**(4,779)**	919
Changes in fair value of embedded financial derivatives	**(239)**	347
Others	**576**	879
	(4,442)	2,145

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
(a) Finance costs		
Interest on the Otsuka Loans	**30**	1,324
Interest on the convertible bonds (note 16)	**4,830**	4,321
Interest on other borrowings	**1,737**	2,106
Others	**407**	513
	7,004	8,264

5 PROFIT BEFORE TAXATION (CONTINUED)

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
(b) Other items		
Amortisation of intangible assets	**2,926**	2,694
Depreciation	**14,440**	15,584
Research and development costs (note)	**25,708**	24,161
Provision of inventories write-down (note 9)	**188**	1,876
Impairment loss of goodwill	**–**	999
Impairment loss of intangible assets	**150**	–

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

6 INCOME TAX

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

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

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

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

As at 30 June 2017, based on management's assessment of probability on the future taxable profit subsequent to the date of the reporting period, no deferred tax assets had been recognised for tax losses and deductible temporary differences of certain loss-making entities.

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

(i) Weighted average number of ordinary shares

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

(b) Diluted earnings per share

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

The calculation of diluted earnings per share amount for the six months ended 30 June 2017 has not included the potential effect of the deemed conversion of the convertible bonds (note 16) into ordinary shares during the period, as they have an anti-dilutive effect on the basic earnings per share amount for the period.

8 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

During the six months ended 30 June 2017, the Group acquired items of property and equipment with a cost of US$7,054,000 (six months ended 30 June 2016: US$6,345,000) and incurred construction costs for buildings of US$10,599,000 (six months ended 30 June 2016: US$12,157,000) and capitalised development costs of US$7,076,000 (six months ended 30 June 2016: US$6,612,000).

9 INVENTORIES

During the six months ended 30 June 2017, a provision of US$188,000 (six months ended 30 June 2016: US$1,876,000) to write down certain inventories items to their estimated net realisable value has been recognised as an expense in profit or loss.

10 TRADE AND OTHER RECEIVABLES

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

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

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

11 PLEDGED DEPOSITS AND TIME DEPOSITS

	At 30 June 2017 US$'000	At 31 December 2016 US$'000
Deposits with original maturities over three months	**118**	–
Pledged deposits	**685**	668
	803	668

Included in pledged deposits at 30 June 2017 were an amount of US$99,000 (31 December 2016: US$97,000) which were pledged as security for a long-term loan from Shanghai Municipal Financial Administration ("SMFA").

12 CASH AND CASH EQUIVALENTS

	At 30 June 2017 US$'000	At 31 December 2016 US$'000
Cash at bank and on hand	**103,325**	123,694

13 TRADE AND OTHER PAYABLES

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

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

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

14 INTEREST-BEARING BORROWINGS

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

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

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

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

14 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) Bank loans

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

(b) Otsuka Loans

The Company entered into a credit agreement (the "Credit Agreement") dated 15 December 2013 with Otsuka Medical Devices Co., Ltd. ("Otsuka Medical Devices"), a subsidiary of Otsuka Holdings Co., Ltd., being the Company's major shareholder. Pursuant to the Credit Agreement, Otsuka Medical Devices agreed to provide to the Company certain credit facilities of up to US$200,000,000, consisting of three tranches of loans, namely, the Term A Loan, Term B Loan and Term C Loan (collectively, the "Otsuka Loans"). The Otsuka Loans bear interests on the outstanding principal amount thereof for the respective interest periods at a rate equal to LIBOR plus 1% per annum. In January 2014, the Company fully drew down the Otsuka Loans.

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

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

15 DEFERRED INCOME

Deferred income mainly represents government grant received for the Group's expenditures in respect of certain research and development projects and acquisition of land use rights. Such deferred income are amortised in profit or loss on a systematic basis over the respective useful life of the related assets.

16 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.

16 CONVERTIBLE BONDS (CONTINUED)

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

	Liability component US$'000	Equity component US$'000	Total US$'000
As at 1 January 2017	147,769	28,059	175,828
Interest charged during the period (note 5(a))	4,830	–	4,830
Interest paid during the period	(1,916)	–	(1,916)
As at 30 June 2017	150,683	28,059	178,742

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

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

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

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

(b) Share option plans

Apart from the share options in issue carried forward from 2016, 26,617,472 share options were granted to senior management and employees of the Group under the Company's employee share option scheme (six months ended 30 June 2016: 41,670,000) during the six months ended 30 June 2017. The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of option is US$1.00. Each option entitles the holder to subscribe for one ordinary share in the Company. These share options will vest in instalment during the period from 23 January 2018 to 30 March 2022. The exercise price ranges from HK$5.628 to HK$5.798, which represents the highest of (i) the closing price of share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a share.

During the six months ended 30 June 2017, 4,910,190 share options were exercised (six months ended 30 June 2016: 6,582,410) with a weighted average exercise price of HK$2.80 (equivalent to approximately US$0.36) (six months ended 30 June 2016: HK$2.56 (equivalent to approximately US$0.33)) and the total number of ordinary shares increased by 4,910,190 for the six months ended 30 June 2017 (six months ended 30 June 2016: 6,582,410 ordinary shares).

17 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share award scheme

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

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

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

During the six months ended 30 June 2017, the Group transferred partial equity interests in Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai") to a partnership firm (the "Lifesciences ESPP") (note 18(b)). No expense was recognised for the six months ended 30 June 2017 in relation to the Lifesciences ESPP as the transfer consideration approximates to the fair value of the equity interests transferred.

18 DISPOSALS

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

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

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

18 DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

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

(b) MP Lifesciences Shanghai

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

18 DISPOSALS (CONTINUED)

(b) MP Lifesciences Shanghai (continued)

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

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

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) 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

- 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 convertible notes issued by an associate of the Group (the "Lombard Conversion Option"). 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.

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Fair value hierarchy (continued)

	Fair value at 30 June 2017 US$'000	Fair value measurements as at 30 June 2017 categorised into Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
Recurring fair value measurement				
Financial assets:				
Derivative financial assets:				
– Lombard Conversion Option	3,237	–	–	3,237

The carrying amounts of the Group's financial statements carried at cost or amortised cost are at amounts not materially different from their fair values as at 30 June 2017 and 31 December 2016.

As there is no quoted price in an active market for an identical instrument and the fair value of the Group's available-for-sale securities cannot be reliably measured, the Group's available-for-sale securities are stated at cost less impairment losses as at 30 June 2017 and 31 December 2016.

During the six months ended 30 June 2017 and 2016, 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.

(b) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable	Volatility ratio
Lombard Conversion Option	Binomial lattice model	Expected volatility	81.63% (31 December 2016: 73.87%)

The fair value of the Lombard conversion option is 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 30 June 2017, 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 by US$206,000/US$215,000.

The loss arising from the re-measurement of the Lombard Conversion Option is presented in "Other net (loss)/gain" in the consolidated statement of profit or loss.

20 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2017 US$'000	At 31 December 2016 US$'000
Contracted for	**21,047**	25,424
Authorised but not contracted for	**59,149**	64,992
	80,196	90,416

21 CONTINGENT LIABILITIES

As at 30 June 2017, the Group has issued a guarantee of RMB30,000,000 (equivalent to US$4,325,000) in respect of a banking facility granted by a bank to MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM"), a joint venture of the Group. As at 30 June 2017, the banking facility was fully utilised.

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 30 June 2017.

22 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) On 28 July 2017, Shanghai MicroPort EP MedTech Co., Ltd. ("MicroPort EP") received an approval relating to the quotation of its shares on the National Equities Exchange and Quotations (the "NEEQ") from NEEQ Co., Ltd. The shares of MicroPort EP was quoted on the NEEQ from 15 August 2017. Further details of the EP Spin-off were set out in the Company's announcements dated 29 August 2016, 28 July 2017 and 14 August 2017.

(b) On 15 August 2017, 1,596,103 ordinary shares of the Company at an issue price of HK$5.958 per share were issued by the Company as final dividend for the year ended 31 December 2016 (note 17(a)).

(c) On 22 August 2017, the Group entered into an equity transfer agreement with third parties, pursuant to which, the third parties conditionally agreed to subscribe for certain newly issued share capital of Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow"), a subsidiary of the Group. Upon the completion of the transactions, MP CardioFlow will remain as a subsidiary of the Group. Further details of the transactions were set out in the Company's announcement dated 22 August 2017.

23 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Salaries and other benefits	**1,227**	1,297
Discretionary bonuses	**1,504**	1,140
Retirement scheme contributions	**31**	28
Equity-settled share-based payment expenses	**1,304**	775
Cash-settled share-based payment expenses	**404**	173
	4,470	3,413

(b) Financing arrangement

(i) As disclosed in note 14(b), the Group fully repaid the Term B Loan in the principal amount of US$40,000,000. Interest expenses and fair value change on the derivative component relating to the Otsuka Loans during the six months ended 30 June 2017 amounted to US$30,000 and US$23,000, respectively (six months ended 30 June 2016: US$1,324,000 and US$347,000, respectively).

(ii) During the six months ended 30 June 2017, the Group provided loans of US$738,000 to MicroPort Sorin CRM. Amount due from MicroPort Sorin CRM is unsecured, interest-free and has no pre-determined terms of repayment.

(iii) As mentioned in note 18(b), after the disposal of partial equity interests in MP Lifesciences, MP Lifesciences became an associate of the Group. As at 30 June 2017, amounts due from MP Lifesciences was US$6,828,000 which bear an interest at 1.1% p.a. and was presented within interest in associates.

(iv) In December 2016, the Group subscribed to the convertible bonds issued by Lombard Medical, Inc. ("Lombard"), an associate of the Group, in an aggregate principal amount of US$10,000,000 (the "Lombard Convertible Bonds"). The Lombard Convertible Bonds bear an interest at LIBOR plus 4.0% and contain a conversion option which entitles the Group to convert them into ordinary shares of Lombard. During the six months ended 30 June 2017, interest income and fair value changes on the conversion option relating to the Lombard Convertible Bonds amounted to US$537,000 and US$233,000, respectively.

(c) Other transactions with related parties

For the six months ended 30 June 2017 and 2016 the Group has entered into other transactions with the following related parties:

Name of party	Relationship
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
We'Tron Capital Limited ("We'Tron Capital")	Substantial shareholder of the Company
Maxwell Maxcare Science Foundation Limited ("Maxwell Maxcare")	Controlling party of We'Tron Capital
ZJ Sci-Tech Venture	Subsidiary of substantial shareholder of the Company

23 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Other transactions with related parties (continued)

Particulars of the Group's sales transactions with these parties are as follows:

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Sales of goods to:		
Thai Otsuka	**729**	530
Otsuka Philippines	**370**	696
Otsuka Indonesia	**422**	286
Otsuka Pakistan	**785**	422
	2,306	1,934

	At 30 June	At 31 December
	2017	2016
	US$'000	US$'000
Trade debtors from:		
Thai Otsuka	**738**	675
Otsuka Philippines	**295**	187
Otsuka Indonesia	**209**	112
Otsuka Pakistan	**779**	400
MicroPort Sorin CRM	**69**	69
	2,090	1,443

Trade debtors due from related parties are unsecured, interest-free and expected to be recovered within one year.

Particulars of the Group's other transactions with related parties are as follows:

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Purchase of goods from MicroPort Sorin CRM	**1,139**	685
Service fee paid to Maxwell Maxcare	**–**	153
Management services fee charged by We'Tron Capital	**87**	92
Disposal of partial equity interests in MP Endo to ZJ Sci-Tech Venture (note 18(a))	**5,291**	–