ANNUAL REPORT 2017

MicroPort
The Patient Always Comes First

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

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

CONTENTS

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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

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

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

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

PLACE OF BUSINESS IN HONG KONG

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Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

KPMG, *Certified Public Accountants*

LEGAL CONSULTANT

Freshfields Bruckhaus Deringer

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.microport.com.cn

PRINCIPAL BANKERS

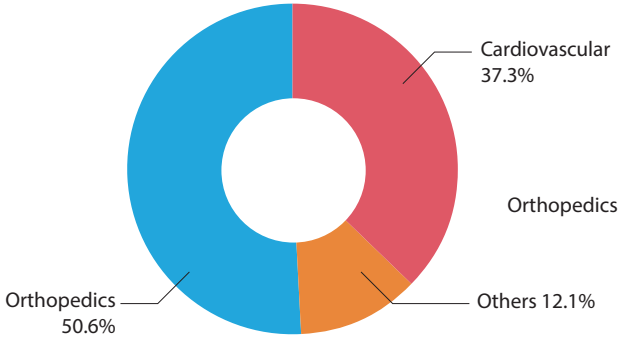
Bank of China (Hong Kong) Limited
China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
Shanghai Pudong Development Bank Zhangjiang Sub-Branch

FINANCIAL HIGHLIGHTS

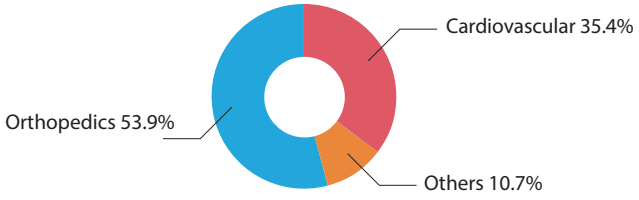
	Financial Year Ended		
	2017 US$'000	2016 US$'000	Change %
Revenue	**444,190**	389,921	13.9%
Gross profit	**318,397**	271,678	17.2%
Profit for the year	**16,951**	15,069	12.5%
Profit attributable to equity shareholders of the Company	**18,823**	14,141	33.1%
Earnings per share –			
Basic (in cents)	**1.31**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

Revenue Analysis

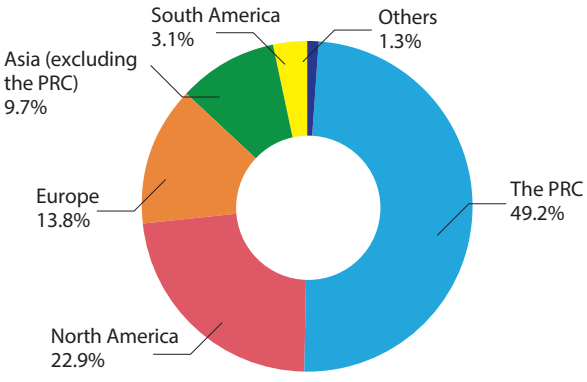
Revenue by Business Segment
For the Year Ended 31 December 2017



Revenue by Business Segment
For the Year Ended 31 December 2016



Revenue by Geographical Region
For the Year Ended 31 December 2017



FIVE YEARS' FINANCIAL SUMMARY

	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**444,190**	389,921	375,844	355,284	151,655
Net profit/(loss)	**16,951**	15,069	(11,379)	(59,571)	23,997
Assets					
Non-current assets	**473,918**	417,074	402,403	431,622	219,043
Current assets	**429,705**	357,476	331,240	508,112	299,803
Total assets	**903,623**	774,550	733,643	939,734	518,846
Liabilities					
Current liabilities	**198,893**	210,039	164,601	328,032	77,997
Non-current liabilities	**265,278**	218,032	251,214	267,959	50,416
Total liabilities	**464,171**	428,071	415,815	595,991	128,413
Total equity	**439,452**	346,479	317,828	343,743	390,433

COMPANY PROFILE

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

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

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

With a large global footprint of R&D and manufacturing facilities in Shanghai, Jiangsu, Zhejiang, Beijing and Shenzhen in China, and Memphis, Tennessee in the United States, a strong focus on technology innovation with over 3,000 approved patents, and a global workforce of over 3,100 employees, MicroPort is committed to achieving its corporate vision.

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

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

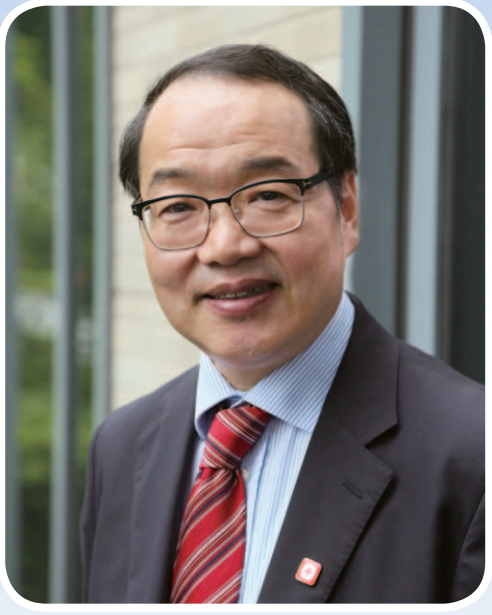
OUR VISION

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

OUR MISSION

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

CHAIRMAN'S STATEMENT



Dr. Zhaohua Chang Chairman

Dear Shareholders,

In 2017, the medical device industry continued to grow. With the increase of financial subsidies for urban and rural healthcare, as well as the advancement of the integrated medical system and hierarchical diagnosis and treatment system, China's health resources continued to be in high demand and the market for the medical device industry continued to expand. During the same period, Microport implemented and effectively improved its strategic planning and its standard of operations and corporate governance. The Company also reached several important milestones. Rapid growth in all business segments drove the Group's revenue to a year-on-year increase of 14.7% (excluding the impact of foreign exchange). The Group recorded a profit of US$18.8 million attributable to equity shareholders of the Company during the year, representing a 33.1% increase over the corresponding period last year. Gross profit margin of the Group also further increased. Particularly notable was the international (non-China) orthopedics business, whose revenue growth was the fastest seen in over a decade. These achievements proved the effectiveness of Microport post-acquisition policies for turning loss to profit, and were an encouraging sign of a future of steady diversified and globalized policy implementation.

Leveraging on its unique "Full Function, Faster™" concept, MicroPort orthopedics strove to enhance its brand awareness globally. Meanwhile, our orthopedic devices business achieved growth in revenue and significantly reduced operating losses due to strict control over various costs and operational expenses, and a strategy to adjust the product and regional sale mix. Revenue for the international (non-China) orthopedics business grew by 6.2% (excluding the impact of foreign exchange) compared to last year, far exceeding the market average. Losses were significantly reduced by US$10.7 million. In the fourth quarter of 2017, the Group achieved break-even. Revenue for the China orthopedics business continued to develop rapidly. Revenue from knee products increased exponentially, due to an exclusive Medial-Pivot Knee System design and the products' extraordinary stability. With this robust foundation for sustainable development of its orthopedics device business, MicroPort orthopedics will achieve import substitution and devote its future efforts to providing patients with affordable products and services of world-class quality.

Our cardiovascular business kept up the rapid growth momentum, expanding in new markets while strengthening existing ones. Its year-on-year revenue increase of 21.5% (excluding the impact of foreign exchange) further consolidated the Company's leading position in China's cardiovascular devices sector. The business's premium product – Firehawk™ Coronary Rapamycin Target Eluting Stent ("Firehawk™"), the world's only Target Eluting Stent (TES) – achieved rapid growth in the global market, increasing its proportion of our stent products. Sales of the value-end product Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™") increased steadily. With diversified policies being executed effectively at the Company's operational level and through the combined efforts of all business segments, revenue from the Group's various business segments recorded a strong growth. For instance, revenue from the endovascular and electrophysiology businesses recorded year-on-year increases of 33.1% and 39.0% (both excluding the impact of foreign exchange) respectively, while the neurovascular business saw a rapid year-on-year increase of 54.7% (excluding the impact of foreign exchange).

R&D capacity and the effective and steady advancement of R&D plans are core drivers for a medical device company's sustained development. Independent research and the production of domestic medical devices products that meet international standards are not only essential for a company to maintain its competitive strength, but are also effective means to provide patients globally with better medical treatment with better efficacy at a more affordable price. As a leading company engaged in R&D, production and sales of domestic medical devices, we aim to achieve the objective of import substitution and building "Made in China" as brand with higher standards and better practices. By adhering to the principle of saving lives or improving quality of life since its establishment, the Group has enhanced its independent R&D capability and investigated advanced technologies worldwide to maintain its scientific and technological leadership.

CHAIRMAN'S STATEMENT

In 2017, we obtained major developments in multiple areas of R&D and in clinical progress for multiple products. The Castor™ Thoracic Branch Stent-Graft and Delivery System ("Castor™") – the only one of its kind in the world – has obtained China Food and Drug Administration (CFDA) approval and was available for sale during the year. The Rega™ Family Implantable Pacemakers ("Rega™ Pacemakers") obtained CFDA approval with exemption for clinical trials, and was the smallest pacemaker product with the longest battery service life on the market. It is also the first domestic pacemaker with world-class quality. Steady progress was made with the Firehawk™ TARGET series of clinical projects. According to data from clinical follow-ups in Europe and China, the Strut Coverage Rate at three months is 99.9%, and the Def/Prob Stent Thrombosis at five years is 0%, further proving the quality of Firehawk™. Our VitaFlow™ Transcatheter Aortic Valve and its Delivery System (TAVI) ("VitaFlow™") have successfully completed a one-year clinical follow-up. Its second-generation products will include a "recoverable" function as well as integrated puncture and multi-directional bending, with increased compatibility which can significantly reduce vascular complications. During the year 2017, 9 of our products had obtained CFDA approval, and 5 had entered the CFDA Green Path. By the end of 2017, we had 11 products on the CFDA Green Path, ranking us topmost among domestic medical device enterprises.

In 2017, the Company initiated several substantial investment and financing, merger and acquisition activities to obtain sufficient capital to build new momentum for sustainable development. The subsidiary MP Endo introduced China Renaissance and CICC, strategic investors with a valuation of RMB1.85 billion. The subsidiary MP CardioFlow introduced China Renaissance, CICC and Huatai Securities with RMB2.1 billion, which marked our first success in completing an external financing project for products at the R&D clinical stage. The subsidiary MicroPort EP was listed in the National Equities Exchange and Quotations Market during the year. The most notably substantial acquisition was our planned US$190 million purchase of the arrhythmia management business of LivaNova. This acquisition is pending the consideration and approval of the extraordinary general meeting. Upon its completion, Microport will be the leader in the arrhythmia management segment in terms of technology and will enter the global arrhythmia management market with a valuation of approximately US$10 billion.

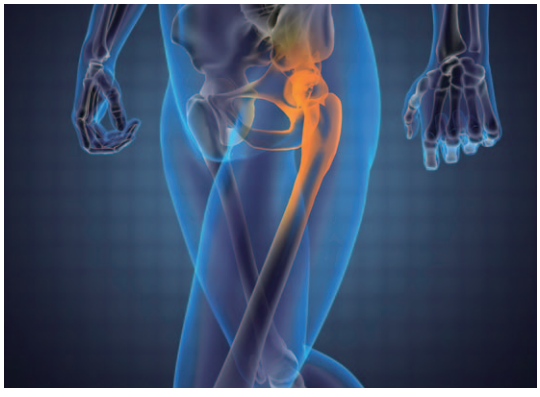
Going forward, new products from all Group segments are expected to be certified and brought to market. These products will be the new engines of Microport's sustainable development. We will continue our innovation-driven and stable business philosophy, enrich the Group's product portfolio and further refine management standards to move closer to our goal of becoming the globe's leading medical devices group. Microport will continue to be dedicated to product and technological innovation, building leadership in the high-tech medical field represented by minimally invasive procedures.

Dr. Zhaohua Chang
Chairman

27 March 2018

BUSINESS OVERVIEW

OVERVIEW



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

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

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

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

ORTHOPEDICS DEVICES BUSINESS

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

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

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

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

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

CARDIOVASCULAR DEVICES BUSINESS

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

In 2017, our cardiovascular business has continued to maintain its market leading position in China. Driven by the rapid sales growth of our premium product, the world's first and only Firehawk™ Coronary Rapamycin Target Eluting Stent ("DES") ("Firehawk™") and the steady income contribution of the value-end product Firebird™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird™"), our cardiovascular business achieved a revenue of US$165.6 million during the reporting period, representing a year-on-year increase of 21.5% (excluding the foreign exchange impact). In the PRC market, the stent business achieved a rapid growth of 20.0% (excluding the foreign exchange impact) in sales revenue, of which, Firehawk™ recorded a year-on-year increase of 61.1% (excluding the foreign exchange impact) in revenue and Firebird™ recorded a year-on-year increase of 9.0% (excluding the foreign exchange impact) in revenue. Balloon products also achieved excellent performance during the reporting period, with its revenue growth rate stood at 51.7% (excluding the foreign exchange impact). In addition, Firehawk™ also witnessed great sales performance in overseas market, the overseas revenue growth of Firehawk has increased substantially by 53.3% (excluding foreign exchange impact) as compared to 2016. The proportion of Firehawk™ in the overall revenue of the Group's DES increased from 24.0% in 2016 to 31.9% in 2017.

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

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

ENDOVASCULAR DEVICES BUSINESS

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

During the reporting period, the endovascular devices business recorded a revenue of US$24.8 million, representing a strong growth of 33.1% (excluding the foreign exchange impact) as compared to that of last year, and continued to maintain leading position of market share in China. The above increase was mainly attributable to the excellent safety and efficacy of our products. For example, Hercules™ Low Profile Thoracic Branch Stent-Graft system achieved a year-on-year growth of 57.3% (excluding the foreign exchange impact), and the Hercules™-B Abdominal Aortic Stent-graft and Delivery System recorded a year-on-year growth of 20.5% (excluding the foreign exchange impact) in sales. Castor™ Thoracic Branch Stent-Graft System ("Castor™"), the world's first stent graft specially designed for endovascular treatment of thoracic aorta and great vessels of the arch simultaneously, obtained China Food and Drug Administration (the "CFDA") Approval in June 2017 and the first implant was performed in September. As of 31 December 2017, Castor™ was available for sale in almost 50 core hospitals in China. Meanwhile, we made important progress with regard to market development in China, especially in second-or-third-tier cities. During the reporting period, we have newly developed nearly 100 hospitals and more than half of which are county hospitals or Tier II hospitals.

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

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

EP DEVICES BUSINESS

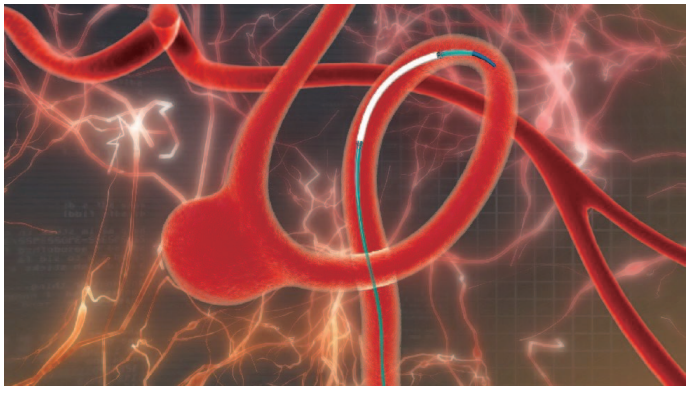
The principal business of the EP devices segment is the manufacturing and marketing of minimally invasive medical devices for the intervention treatment of electrophysiological diseases. We currently have a complete set of solutions for treatment of tachyarrhythmia supraventricular tachycardia and atrial fibrillation radio frequency ablation, providing physicians and patients with a more comprehensive EP product instrument portfolio. We have also become the only company that can provide a complete set of 3D integrated solutions for diagnosis and treatment of complex arrhythmia among the domestic peers.

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

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

NEUROVASCULAR DEVICES BUSINESS

The neurovascular business segment specializes in providing products and services for the treatment of neurovascular diseases including Cerebral Aneurysms, Intracranial Atherosclerotic Diseases ("ICAD"), Carotid Artery Diseases ("CAD") and other neurovasculature related diseases. Two neurovascular devices were available for sale in 2017. APOLLO™ Intracranial Stent System ("APOLLO™") for cerebral ischemia is for treatment of intracranial atherosclerotic cerebrovascular stenosis; and WILLIS™ Intracranial Stent Graft System is the only stent graft system for intracranial cerebral aneurysms approved by the CFDA. In addition, there are a number of products under research and development to be added to the neurovascular product portfolio in future.



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

SURGICAL MANAGEMENT BUSINESS

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

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

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

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

RESEARCH AND DEVELOPMENT ("R&D")

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

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

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

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

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

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

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

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

MANUFACTURING

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

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

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

QUALITY ASSURANCE

Priority is given to "quality" in the values of the Group as we know the quality of each our products has close bond with human life. The Group have an independent quality and regulatory business department and devote significant resources to quality management of our products through monitoring every stage of our quality control process, including R&D, product design, procurement of raw materials, manufacturing, product release, product feedback and risk management, so as to guarantee the consistency of product quality meeting the Group's quality management standards and policies. The quality and regulatory business department also conducts inspection on our products both during and after the manufacturing process, including raw material inspection, manufacturing process inspection and final products delivery inspection.

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

COMPETITION

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

INTELLECTUAL PROPERTY

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

FINANCIAL REVIEW

OVERVIEW

Faced with technical changes in the global medical device industry, in particular the challenges in the rapidly growing medical device industry from a highly competitive global market, we have successfully achieved a revenue growth of 13.9% for the year ended 31 December 2017 and maintained our leading position in China. We firmly continued to provide diversified products and continued our globalization strategy thereby generated 50.8% of our revenue from overseas market. We aim to continuously bring our innovations, technologies and services to millions of global patients and become a patient-oriented global leading enterprise in minimally invasive treatment and other emerging medical market.

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

REVENUE

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

Note: During the 12 months ended 31 December 2017, this segment was restructured whereby the Group ceased to hold the controlling interest in Shanghai MicroPort Lifesciences Co., Ltd. (the "MP Lifesciences Shanghai") who became an associate entity of the Group. As a result, the revenue of this segment disclosed herein for the year ended 31 December 2017, only accrued for the period from 1 January 2017 to the date the Group ceased to hold the controlling interest as compared to a full year for the year ended 31 December 2016.

Our revenue for the year ended 31 December 2017 was US$444.2 million, increasing by 13.9% compared to US$389.9 million for the year ended 31 December 2016. Our reported revenue was impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries, to US$, the presentation currency of the Group due to the appreciation or depreciation of US$ against RMB. Excluding the foreign exchange impact, our revenue growth rate was 14.7%. Such an increase was primarily driven by strong sales performance of the cardiovascular business. The following discussion is based on our seven major business segments.

– ORTHOPEDICS DEVICES SEGMENT

Our orthopedics devices segment achieved a revenue of US$224.6 million for the year ended 31 December 2017, representing a growth of 7.3% excluding the foreign exchange impact and 6.9% in US$ compared to the year ended 31 December 2016. Such increase was mainly attributed to (i) revenue in the United States market which achieved 10.5% growth in 2017 excluding the foreign exchange impact through our focus on opening new sales channels, surgeon training effectiveness, and the launch of new products which encouraged robust and tremendous revenue growth in the US market; (ii) operation revenue in Japan increased by 9.3% excluding the foreign exchange impact. By seeing positive momentum from the Japanese market with solid growth in both knee and hip implants by a focus on sales execution and customer development, Japan's knee implant sales are performing at a record level; (iii) the operation revenue in EMEA market decreased by 0.7% excluding the foreign exchange impact over the prior year, mainly affected by timing of orders from stocking distributors and the strategy to shift away from lower margin sales channels for optimized utilization of limited corporate resources; (iv) revenue in the PRC market increased by 28.3% excluding the foreign exchange impact compared to the year ended 31 December 2016, which was attributable to greater market recognition from surgeons leading to the significant increase in implants; and (v) revenue in other markets increased by 1.7% excluding the foreign exchange impact driven by steady growth in Australia, Canada and Brazil market.

– CARDIOVASCULAR DEVICES SEGMENT

Our cardiovascular devices segment achieved a revenue of US$165.6 million for the year ended 31 December 2017, representing a significant growth of 21.5% excluding the foreign exchange impact or a growth of 20.1% in US$ compared to the year ended 31 December 2016. Such increase was mainly attributable to (i) Firehawk™ penetrating into an increasing number of hospitals in China and more overseas countries, with its global revenue achieving 59.8% growth excluding the foreign exchange impact compared with the year ended 31 December 2016; and (ii) Firebird2™ sales in the PRC market maintaining an organic growth of 9.0% excluding the foreign exchange impact through advanced distribution channels.

– ENDOVASCULAR DEVICES SEGMENT

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

– EP DEVICES SEGMENT

Our EP devices segment recorded a revenue of US$9.4 million for the year ended 31 December 2017, representing a growth of 39.0% excluding the foreign exchange impact or a growth of 35.3% in US$ compared to the year ended 31 December 2016. Such increase was mainly attributable to the significant expansion of our distribution network and hospital coverage, the premium quality of the in-house-developed products, as well as rapid revenue growth of new products i.e. Columbus™ 3D EP Navigation System, FireMagic™ 3D Irrigated Ablation Catheter and FireMagic™ Cardiac RF Ablation Catheter ,which were launched in 2016.

– NEUROVASCULAR DEVICES SEGMENT

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

- **SURGICAL MANAGEMENT SEGMENT**

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

- **DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT**

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

COST OF SALES

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

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit increased by 17.2% from US$271.7 million for the year ended 31 December 2016 to US$318.4 million for the year ended 31 December 2017. Gross profit margin is calculated as gross profit divided by revenue. Our gross profit margin increased to 71.7% for the year ended 31 December 2017 as compared to 69.7% for the year ended 31 December 2016, primarily as a result of (i) the substantial growth in the revenue of product with high gross profit margin, especially the cardiovascular products, which promoted the optimization of sales portfolio: (ii) lower manufacturing cost of orthorecon medical devices, Firehawk™ and Firebird2™.

OTHER REVENUE AND OTHER NET (LOSS)/GAIN

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

GAIN ON DISPOSAL OF SUBSIDIARIES

We had a gain on disposal of subsidiaries of US$6.5 million for the year ended 31 December 2017, representing the gain on disposal of an aggregate of 60% equity interest in MP Lifesciences Shanghai. The gain on disposal was determined by the difference between (a) the sum of (i) cash consideration received; (ii) the fair value of the remaining interests in MP Lifesciences Shanghai and (iii) the carrying amount of the non-controlling interests; and (b) the carrying amount of MP Lifesciences Shanghai's net assets.

RESEARCH AND DEVELOPMENT COSTS

R&D costs increased by 12.0% from US$51.9 million for the year ended 31 December 2016 to US$58.2 million for the year ended 31 December 2017. Such increase was primarily due to the increased investment in the on-going R&D projects and the newly kicked-off R&D projects.

DISTRIBUTION COSTS

Distribution costs increased by 7.2% from US$128.5 million for the year ended 31 December 2016 to US$137.8 million for the year ended 31 December 2017. Such increase was mainly attributable to (i) an increase in bonuses to the sales representatives; and (ii) an increase in admission fees and other expenses for broader participation in a variety of industry conferences and events.

ADMINISTRATIVE EXPENSES

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

OTHER OPERATING COSTS

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

FINANCE COSTS

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

INCOME TAX

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

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

CAPITAL MANAGEMENT

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

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2017, we had cash and cash equivalents of US$160.2 million, as compared to US$123.7 million as of 31 December 2016. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

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

NET CURRENT ASSETS

Our net current assets as at 31 December 2017 were US$230.8 million, as compared to US$147.4 million as at 31 December 2016.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from sales, purchases, borrowing and lending which give rises to receivables and payables that are denominated in a foreign currency (mainly RMB, Euro and Japanese yen). For the year ended 31 December 2017, the Group recorded a net exchange loss of US$11.0 million, as compared to a net foreign exchange gain of US$6.7 million for the year ended 31 December 2016. The Group did not have any significant hedging arrangements to manage foreign exchange risk but has been actively monitoring and overseeing its foreign exchange risk.

CAPITAL EXPENDITURE

For the year ended 31 December 2017, the Group's total capital expenditure amounted to approximately US$78.2 million, which was used in (i) construction of buildings; (ii) acquiring equipment and machineries; and (iii) expenditures for R&D projects under development stage.

CHARGE ON ASSETS

As at 31 December 2017, the Group had set mortgage on its manufactory building, headquarter building and land use rights held for own use for the purpose of securing a long term loan from Shanghai Municipal Financial Administration with a carrying value of US$0.2 million and bank loans of US$46.9 million.

FUTURE INVESTMENT PLANS AND EXPECTED FUNDING

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

SUBSEQUENT EVENTS

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

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

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

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

Upon completion of the Contribution and Shareholders' Agreement, the Purchaser will be owned as to 75% by MP HK and 25% by SRL. Further details of abovementioned agreements are set out in the Company's announcements dated 20 November 2017, 20 February 2018 and 8 March 2018.

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

PROSPECT

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

1. Further strengthening our leading position in the domestic medical devices market. We will take advantages of our brand recognition and sales distribution network in the domestic market to further reinforce the expansion in the PRC market to maintain and strengthen our leading position in the PRC medical devices market.

2. Developing and improving our existing products with diversification of products through innovation. We will further develop and improve the performance and manufacturing process of our existing products, and foster firm R&D activities to develop a new generation of products, actively advance the clinic trial and approval of new products and thus diversify our product offering and provide a comprehensive portfolio of medical devices to physicians and patients.

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang (常兆華), born in 1963, is our founder, Executive Director, Chairman and Chief Executive Officer ("CEO") of the Company. Dr. Chang has served as a Director since 14 July 2006 and assumed the responsibility of the CEO of the Company from April 2008 to July 2010, and reassumed the responsibility of the CEO of the Company from 20 September 2012. Dr. Chang is currently holding directorship in various subsidiaries of the Group. Dr. Chang has over 27 years of experience in the medical device industry, and he is currently a professor of the Medical Device College of the University of Shanghai for Science and Technology. Prior to founding Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械(集團)有限公司) ("MP Shanghai") in 1998, Dr. Chang was the vice president of research and development of Endocare Inc., a NASDAQ listed medical device company based in California, U.S., from 1996 to 1997. From 1990 to 1995, he was the senior engineer and senior scientist, director of research and development and vice president of engineering at Cryomedical Sciences Inc., a medical device company in Maryland, U.S., which was listed on NASDAQ prior to its acquisition by a third party. Dr. Zhaohua Chang received a bachelor's degree in refrigeration engineering in 1983 and a master's degree in cryogenics in 1985 from the University of Shanghai for Science and Technology. Dr. Chang received his Ph.D. degree in biological sciences from the State University of New York at Binghamton in 1992.

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida (蘆田典裕), born in 1954, is a Non-executive Director of the Company. Mr. Ashida has served as a Director since 1 November 2006. Mr. Ashida is currently holding directorship in certain subsidiaries of the Group. Mr. Ashida is also a Director of Otsuka Medical Devices Co., Ltd. ("OMD"), a subsidiary of Otsuka Holdings Co., Ltd ("Otsuka Holdings"). Mr. Ashida was an Executive Operating Officer of Otsuka Holdings and the Director of its business development and planning department until 2015. He joined Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") in April 2003 from Mizuho Corporate Bank Ltd., where he was a general manager from 2002 to 2003. From 1999 to 2002, Mr. Ashida was a general manager of the Industrial Bank of Japan ("IBJ"), where he headed the credit department for western Japan. From 1995 to 1999, Mr. Ashida served as Vice President responsible for business development at 3iBJ Ltd., a venture capital firm formed by 3i Group plc and IBJ. From 1989 to 1995, Mr. Ashida was a Senior Vice President of IBJ (Canada). He joined IBJ in 1977 in its Tokyo branch. Mr. Ashida received his bachelor's degree in economics from the University of Tokyo in 1977.

Mr.Shirafuji (白藤泰司), born in 1944, is a Non-executive Director of the Company. Mr. Shirafuji has served as a Director since 1 November 2006. Mr. Shirafuji is currently holding directorship in certain subsidiaries of the Group. Mr. Shirafuji is currently serving as an adviser of Otsuka Holdings since 1 April 2017. Prior to the current position, he has served as the President and representative director of OMD and it's directorship in certain subsidiaries of the Group from February 2011 to December 2016. Prior to joining OMD, he was an Executive Director responsible for pharmaceuticals marketing at Otsuka Pharmaceutical from 1997 to 1998. Mr. Shirafuji joined Otsuka Pharmaceutical in 1967. Mr. Shirafuji received his bachelor's degree in economics from Doshisha University in Kyoto in 1967.

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

Ms. Janine Junyuan Feng (馮軍元), born in 1969, was appointed as the Non-executive Director of the Company on 28 March 2016. Ms. Feng is currently a managing director of the Carlyle Group. Ms. Feng has been involved in many direct investments by the Carlyle Group in consumer, financial, and industrial companies in the PRC. Prior to joining the Carlyle Group, Ms. Feng worked for Credit Suisse First Boston's New York office, engaging in investment banking business. She is currently serving as a non-executive director of Meinian Onehealth Healthcare (Group) Co., Ltd. (美年大健康產業(集團)有限公司), a company listed on Shenzhen Stock Exchange (stock code: SZ:002044). Ms. Feng received a Master of Business Administration degree from Harvard Business School and a Bachelor of Arts degree from Middlebury College.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou (周嘉鴻), born in 1964, was appointed as our independent non-executive Director ("INED") on 3 September 2010. Mr. Chou is currently the Chief Financial Officer of Nanometrics Incorporated (NASDAQ: NANO), a leading provider of advanced process control solutions. He was appointed on March 5, 2018, and is based at Nanometrics's headquarters in Milpitas, California, US. Before joining Nanometrics, he held the position of Executive Vice President & Chief Financial Officer of Kulicke & Soffa Industries Incorporated ("K&S"), (NASDAQ: KLIC), a leading provider of semiconductor packaging and electronic assembly solutions supporting the global automotive, consumer, communications, computing and industrial segments. He was based in Singapore and held the Chief Financial Officer position since he joined K&S in December 2010 until February 2018. In addition to his Chief Financial Officer role, he also held a number of executive positions including Interim Chief Executive Officer from October 2015 through October 2016. He also covered global IT and facilities functions. Mr. Chou has over 25 years of financial leadership and management experience from industrial, semiconductor capital equipment and global electronics manufacturing industries. For the three years before K&S, Mr. Chou was the CFO of Feihe International, an NYSE-listed Sequoia Capital portfolio consumer goods company based in China, where he led the company to its successful NYSE Main Board listing. Before his U.S.-listed company CFO roles, Mr. Chou held Asia Pacific Regional CFO roles with Fortune 500 companies including Honeywell International, Tyco International, and Lucent Technologies. Mr. Chou holds an MBA from Duke University, Fuqua School of Business, North Carolina and a B.A. from the University at Buffalo, New York.

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

Mr. Chunyang Shao (邵春陽), born in 1964, was appointed as our INED on 23 September 2016. Mr. Shao is currently a partner of JunHe LLP and a member of the All China Lawyers Association and Shanghai Bar Association. Mr. Shao specializes in practice such as corporate, foreign investment, real estate, mergers and acquisitions, securities, infrastructure and project finance. From July 1988 to October 1993, Mr. Shao worked in Anhui Foreign Economy Law Office. From November 1995 to March 2002, Mr. Shao worked in the London, Hong Kong and China offices of major international law firms, including in Simmons & Simmons as PRC legal counsel and Sidley Austin as a senior PRC legal consultant. Mr. Shao joined JunHe LLP in April 2002. Mr. Shao is currently the independent director of Changjiang & Jinggong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600496), and the independent director of Zhejiang Aishida Electric Co., Ltd. (浙江愛仕達電器股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002403). Mr. Shao received his bachelor degree in law from East China University of Political Science and Law in 1987, and was admitted to practice PRC law in 1988. From 1993 to 1994, Mr. Shao worked as visiting lawyer in Sino-Britain Young Lawyers' Exchange Program in the UK. In 2002, he received his master degree in law from East China University of Political Science and Law.

SENIOR MANAGEMENT

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

GREATER CHINA EXECUTIVE COMMITTEE

Mr. Bo Peng (彭博), born in 1968, is Chief Marketing Officer of MP Shanghai and Chairman of CEC. Prior to August 2010, Mr. Peng served as Senior Vice President of domestic sales and marketing of the Company. Mr. Peng is currently holding directorship in MicroPort Endovascular (Shanghai) Co., Ltd. (微創心脈醫療科技(上海)有限公司) ("MP ENDO") and MicroPort NeuroTech (Shanghai) Co., Ltd. (微創神通醫療科技(上海)有限公司), each a subsidiary of the Group. Mr. Peng has over 20 years of experience in marketing and sales. Prior to joining us in 2001, Mr. Peng served as Vice President, General Manager of the sales subsidiary, and Director of Xianxing Electronics Group. Mr. Peng received his bachelor's degree in computer science from Changchun University of Science and Technology in 1990 and a master's degree in business administration from Shanghai University of Finance & Economics in 2003.

Mr. Hongbin Sun (孫洪斌), born in 1975, is the Chief Financial Officer ("CFO") of the Company and MP Shanghai, Co-Chairman of CEC. Mr. Sun served as a Director of the Company from 22 July 2010 to 20 September 2012. Mr. Sun has over 20 years of finance experience. Mr. Sun was the Director and General Manager of Otsuka China from 2006 to July 2010. From 2004 to 2006, he served as a Financial Director of Otsuka China. From 1998 to 2003, Mr. Sun was an Assistant Manager of KPMG Shanghai Office. Mr. Sun is a member of the Chinese Institute of Certified Public Accountants and is also a Chartered Financial Analyst. Mr. Sun received his bachelor's degree in economics from Shanghai Jiao Tong University in 1998.

Dr. Qiyi Luo (羅七一), born in 1962, is the Chief Technology Officer ("CTO") of the Company. Mr. Luo served as a Director of the Company from 22 July 2010 to 20 September 2012. Mr. Luo is currently holding directorship in Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技股份有限公司), MicroPort Sorin CRM Limited (創領心律管理醫療器械(上海)有限公司), and Shanghai MicroPort CardioFlow MedTech Co., Ltd. (上海微創心通醫療科技有限公司), each a subsidiary of the Group. Mr. Luo has over 26 years of experience in the medical device industry. Prior to joining us in 2003, he worked as Principal Research and Development Engineer and Senior Manufacturing/Development Engineer at Medtronic AVE in the United States from 1995 to 2002. From 1991 to 1995, he worked as Supervisor and Engineer of the angioplasty research and development team at Vas-Cath Inc., a subsidiary of C.R. Bard, Inc., in Canada. Mr. Luo, jointly with others, in aggregate holds 375 patents in China, the United States, Japan and the European Union. Dr. Luo received his bachelor's degree in applied science from Yunnan University of Technology in 1983 and his master's degree in applied science from Queen's University in Canada in 1990. Dr. Luo received his Ph.D. degree in biomedical engineering from the University of Shanghai for Science and Technology in 2014.

Mr. Yimin Xu (徐益民), born in 1967, Executive Vice President of Regulatory Affairs of MP Shanghai. Mr. Xu was Vice President of Quality and Regulatory of MP Shanghai until January 2011. He has over 18 years of experience in medical device industry. Prior to joining us in 2000, Mr. Xu served as project manager in Project Department of Shanghai Zhangjiang Hi-Tech Development Co., Ltd. from 1995 to 2000. Mr. Xu also served as quality engineer in Nanjing No. 2 Air Compressor Factory from 1988 to 1992. Mr. Xu received his master's degree in Mechanical and Electronic Engineering from Shanghai Jiaotong University in 1995.

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

INTER-CONTINENTAL EXECUTIVE COMMITTEE

Ms. Glendy Wang, born in 1957, is the Chief Operating Officer ("COO") of the Company. Meanwhile, The IEC reports to her. Prior to joining us in 2017, Ms. Wang had served in several renowned multinational medical devices companies, and accumulated 30 years' experience in operation and management in this industry. Ms. Wang was the managing director of Greater China of Smith & Nephew from 1997 to 2016, and built the Greater China business of Smith & Nephew from 0 to the second largest business unit (only second to the US.) during her 19 years' tenure. Before joining Smith & Nephew, Ms. Wang has served in Beckton Dickinson, and Johnson & Johnson Taiwan Company. Ms. Wang graduated from Christ's College Taipei in 1981.

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

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

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

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

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

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

REPORT OF THE DIRECTORS

The Board of the Company is pleased to present this report together with the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

FINANCIAL STATEMENTS

The financial performance of the Group for the financial year ended 31 December 2017 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 92 to 192 of this annual report.

BUSINESS REVIEW

OVERVIEW

In 2017, faced with technical changes in the global medical device industry, in particular the challenges in the rapidly growing medical device industry from a highly competitive global market, we have successfully achieved a revenue growth of 13.9%, and net profit of US$17.0 million (profit attributable to equity shareholders: US$18.8 million) for the year ended 31 December 2017. We firmly continued to provide diversified products and continued our globalization strategy. We aim to continuously bring our innovations, technologies and services to millions of global patients and become a patient-oriented global leading enterprise in minimally invasive treatment and other emerging medical market.

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position are provided in the part of "Management discussion and analysis" from page 9 to page 23 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

A comprehensive review on the Company's environmental policies and performance during the year 2017 is provided in the "Environment, Social and Governance Report" from page 60 to page 84 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with legal and regulatory requirements, as well as the risk of non-compliance. The Company has allocated system and staff resources to ensure ongoing compliance with applicable laws, rules and regulations including but not limited to, those laws, rules and regulations promulgated by the China Food and Drug Administration, the government of the Hong Kong Special Administrative Region, Food and Drug Administration, the U.S. Commerce Department, the U.S. Department of Justice, and such entities global counterparts in countries where MicroPort conducts business. We maintain cordial working relationships with regulators through effective communications. During 2017, we have strived to conduct business in accordance with all applicable laws, rules and regulations in all material respects and there is no investigation, disciplinary proceeding or inquiry by, or order, decree, decision or judgment of any authority outstanding, or, to the best of the Company's knowledge, threatened or expected to be issued against any member of the Company or its respective assets or any person for whose acts or defaults it may be vicariously liable, and which is of a material nature.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

The Group's principal business activities are exposed to a variety of financial risks including credit risk, interest rate risk, liquidity risk, and currency risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 29 "Financial Risk Management and Fair Values" to the financial statements of this annual report.

MARKET RISKS

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

LEGAL RISKS

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

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

EMPLOYEES

People is regarded as our most important asset and overriding priority. The objective of the Group's HR management is to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement. Details of employees of the Company during the year are set out in the "Environmental, Social and Governance Report" from page 60 to page 84 of this annual report.

CUSTOMERS

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

We have established relationships with many key opinion leaders in medical community, including physicians, researchers and hospital administrators. Through regular visits with specialists, attendance of conferences, holding physician education programs and other activities, our brand recognition are enhanced greatly.

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

SHAREHOLDERS

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

FUTURE BUSINESS DEVELOPMENTS

In 2018, facing the increasingly fierce competition of global medical devices industry, we will continuously perform proactive strategies to maintain sustained development and enhance competitiveness through integrating resources, optimizing management structure, deepening internationalization, intensifying innovation, expanding market, and establishing wise information technology, and so on.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2017, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 9.7% and 23.5% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 6.1% and 16.9% respectively of the Group's total revenue for the year.

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the reporting period are set out in note 27(c)(i) to the consolidated financial statements.

GROUP FINANCIAL SUMMARY

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

DIRECTORS

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

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen
Ms. Janine Junyuan Feng

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

In accordance with the Company's Articles of Association, Ms. Janine Junyuan Feng, Mr. Jonathan H. Chou and Dr. Guoen Liu will retire from office as Directors at the forthcoming annual general meeting. All of them will offer themselves for re-election.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 24 to 29 of this annual report.

DIRECTORS' SERVICE CONTRACT

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

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

EMOLUMENT POLICY

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

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

REMUNERATION OF DIRECTROS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

PENSION SCHEME

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

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

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

As at 31 December 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 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	3.01%

Note:

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

Save as disclosed above, as at 31 December 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 AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 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 which 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 AND SHORT POSITION IN THE SHARES

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
Otsuka Holdings Co. Ltd	382,994,120	1	Interest of controlled corporation	Long position	26.29
Otsuka Medical Devices Co., Ltd.	382,994,120	1	Beneficial owner	Long position	26.29
Shanghai Zhangjiang (Group) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.22
Shanghai Zhangjiang Science and Technology Investment Co.	221,748,050	2	Interest of controlled corporation	Long position	15.22
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.22
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.22
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.22
Shanghai ZJ Hi-Tech Investment Corporation	221,748,050	2	Interest of controlled corporation/ Beneficial Owner	Long position	15.22
Shanghai ZJ Holdings Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.22
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	2	Beneficial Owner	Long position	14.74
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	14.90
We'Tron Capital Ltd.	217,110,000	3	Beneficial owner	Long position	14.90
Shanghai We'Tron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	14.90
CAP IV L.L.C.	207,181,818	4	Interest of controlled corporation	Long Position	14.22
	42,140,000	4	Interest of controlled corporation	Short Position	2.89
CAP IV General Partner, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.22
	42,140,000	4	Interest of controlled corporation	Short Position	2.89
Carlyle Asia Partners IV, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.22
	42,140,000	4	Interest of controlled corporation	Short Position	2.89

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
CAP IV Coinvestment, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.22
	42,140,000	4	Interest of controlled corporation	Short Position	2.89
Erudite Holdings Limited	207,181,818	4	Interest of controlled corporation	Long Position	14.22
	42,140,000	4	Interest of controlled corporation	Short Position	2.89
GIC Private Limited	123,356,590	5, 6	Interest of controlled corporation/investment manager	Long position	8.47
GIC Special Investments Pte Ltd.	123,331,927	5	Interest of controlled corporation	Long position	8.46
GIC (Ventures) Pte Ltd.	123,331,927	5	Interest of controlled corporation	Long position	8.46
Owap Investment Pte Ltd.	123,331,927	5	Person having a security interest in shares	Long position	8.46
Mondrian Investment Partners Limited	86,241,400		Investment manager	Long position	5.92

Notes:

(1) Otsuka Holdings Co. Ltd. holds the entire issued share capital of Otsuka Medical Devices Co., Ltd. and therefore, is deemed to be interested in the same number of Shares held by Otsuka Medical Devices Co., Ltd..

(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	14.74
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.48
Total	221,748,050	15.22

(3) Maxwell Maxcare Science Foundation Limited holds 100% 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 hold 121,181,818 Shares and 86,000,000 Shares, both in long position respectively. In addition, Erudite Investment Limited holds 42,140,000 Shares in short position. Therefore, CAP IV L.L.C., CAP IV General Partner, L.P., Carlyle Asia Partners IV, L.P., CAP IV Coinvestment, L.P. and Erudite Holdings Limited are deemed to be interested in the same 207,181,818 Shares in long position and 42,140,000 Shares in short position.

(5) GIC Private Limited holds 100% interest of GIC Special Investments Pte Ltd. which in turn holds 100% interest of GIC (Ventures) Pte Ltd., which in turn 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 as security interests in the same 123,331,927 Shares held by Owap Investments Pte Ltd..

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

Save as disclosed above, as at 31 December 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.

MANAGEMENT CONTRACT

No contract concerning the management and administration of all or any substantial part of our business was entered into by the Company or existed in 2017.

DIRECTORS' INTERESTS IN CONTRACTS

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

Save as disclosed in note 31 to the consolidated financial statements, no contract of significance had been entered into between the Company or any of its subsidiaries and the Controlling Shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

PERMITTED INDEMNITY PROVISION

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

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

ADVANCE TO AN ENTITY

For the year ended 31 December 2017, the Company didn't provide any advance to any entity which gives rise to a disclosure under Rule 13.20 of the Listing Rules.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDERS

The Controlling Shareholder didn't pledge any of its shares in the Company to secure the Company's debts or to secure guarantees or other support of the Company's obligations for the year ended 31 December 2017.

LOAN AGREEMENTS AND FINANCIAL ASSISTANCE OF THE COMPANY

For the year ended 31 December 2017, The Company didn't enter into any loan agreement with covenants relating to specific performance of its Controlling Shareholder nor breach the terms of any loan agreements for the year ended 31 December 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

CONNECTED TRANSACTIONS

(I) EXCLUSIVE DISTRIBUTION AGREEMENTS

On 23 January, 2017, the Company and Otsuka Holdings entered into a Distribution Framework Agreement ("Distribution Framework Agreement"), details of which were disclosed in the announcement of the Company dated 23 January 2017. According to the Distribution Framework Agreement, the Company appointed Otsuka Holdings' associates as exclusive distributors for the medical devices of the Company's subsidiaries in certain countries or region where the respective business of Otsuka Holdings and its associates covers. The Distribution Framework Agreement has a term commencing from 23 January 2017 and ending on 31 December 2019 (both days inclusive).

The transactions under the Distribution Framework Agreement were conducted via specific distribution agreements between respective members of the Group and Otsuka Holdings' associates, and were made at prices no less favourable than those of similar transactions with independent third parties in accordance with the pricing terms therein.

As Otsuka Holdings is the substantial shareholder of the Company as at the date of this report, it is the connected person of the Company as defined under the Listing Rules. Accordingly, the transactions conducted under the Distribution Framework Agreement constituted continuing connected transactions under Chapter 14A of the Listing Rules. The annual cap for the transactions under the Distribution Framework Agreement in 2017, 2018 and 2019 were US$10 million, US$11 million and US$12 million, respectively. During the year 2017, the actual transaction amount under the Distribution Framework Agreement was USD3.6 million.

(II) SERVICE FRAMEWORK AGREEMENT

On 23 January 2017, the Company and Maxwell Maxcare Science Foundation Limited ("Maxwell") entered into the Service Framework Agreement, pursuant to which Maxwell and/or its associates will provide respective members of the Group with various services, including, among others, properties rental and management, and publicity planning services. The Service Framework Agreement has a term commencing from 23 January 2017 and ending on 31 December 2019 (both days inclusive).

The transactions under the Service Framework Agreement were conducted via specific agreements between specific memners of the Group and Maxwell, and were made at prices no less favorable than such prices offered by any comparable independent third party to the Group or by Maxwell and/or its associates to any comparable independent third party.

As Maxwell is the substantial shareholder of the Company as at the date of this report, it is the connected person of the Company as defined under the Listing Rules. Accordingly, the transactions conducted under the Service Framework Agreement constituted continuing connected transactions under Chapter 14A of the Listing Rules. The annual cap for the transactions under the Service Framework Agreement in 2017, 2018 and 2019 were US$2 million, US$3 million and US$4 million, respectively. During the year 2017, the actual transaction amount under the Service Framework Agreement was USD1.1 million.

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

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

The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with the Listing Rules 14A.56.

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

- the disclosed continuing connected transactions have not been approved by the Board;
- for transactions involving the provision of goods or services by the Group, such transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- the transaction amount of the disclosed continuing connected transactions as mentioned above have exceeded the annual cap set by the Company.

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

Save for the 10,535,000 shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$9,617,000 on The Stock Exchange of Hong Kong Limited, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(I) MICROPORT ENDOVASCULAR (SHANGHAI) CO., LTD. ("MP ENDO")

Reference is made to the announcements of the Company dated 4 December 2016, 10 March 2017 and 26 May 2017. On 3 December 2016, the Group entered into several equity transfer agreements (the "Previous Equity Transfer Agreements") and a capital increase agreement (the "Capital Increase Agreement") with Shanghai Lianmu Enterprise Management Centre (Limited Partnership) ("Lianmu"), Shanghai Jiushen Private Equity Limited (Limited Partnership) ("Jiushen") and Zhangjiang Science & Technology Venture Capital Co., Ltd. ("ZJ Sci-Tech Venture"), pursuant to which, the Group agreed to transfer an aggregate of 12% equity interests in MP Endo to Lianmu and ZJ Sci-Tech Venture at a cash consideration of RMB217,800,000 (equivalent to US$31,746,000) and Jiushen agreed to subscribe for approximately 1.92% of the enlarged share capital of MP Endo at a consideration of RMB35,550,000 (equivalent to US$5,120,000).

On 10 March 2017, the Group entered into an equity transfer agreement (the "CICC Equity Transfer Agreement") with CICC Jiatai Equity Investment Fund Partnership II (Tianjin) (Limited Partnership) ("CICC"), pursuant to which, the Group agreed to transfer 2.78% equity interests in MP Endo at a cash consideration of RMB51,500,000 to CICC.

On 10 March 2017, the Group entered into another equity transfer agreement (the "Huajie Equity Transfer Agreement") with Huajie (Tianjin) Medical Investment Partnership (Limited Partnership) ("Huajie"), pursuant to which, the Group agreed to transfer 7.03% equity interests in MP Endo at a cash consideration of RMB130,000,000 to Huajie.

On 26 May 2017, the Huajie Equity Transfer Agreement was terminated with mutual consent. On the same day, the Group entered into a new equity transfer agreement (the "Fufu Equity Transfer Agreement") with Shanghai Fufu Enterprise Management Consulting Center (Limited Partnership) ("Fufu"), pursuant to which, the Group agreed to transfer 7.03% equity interests in MP Endo at a cash consideration of RMB130,000,000 to Fufu. Huajie and Fufu have the same ultimate controller.

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

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

(II) MP ENDO

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

On 22 August 2017, Shanghai MicroPort Medical (Group) Co., Ltd. ("MicroPort Shanghai"), Shanghai Chenxue Investment Management Center (Limited Partnership) ("Chenxue Investment"), Shanghai Jianyi Xinghe Investment Management Center (Limited Partnership) ("Jianyi Xinghe") (collectively, the "Original Shareholders") and MP CardioFlow entered into a share transfer and capital increase agreement and a shareholders' agreement with certain third party investors (the "Initial Investors") (the "Initial Investment"), pursuant to which, the Initial Investors agreed to subscribe for certain interest to be newly issued in the enlarged share capital of MP CardioFlow upon the completion of the Initial Investment at an aggregate consideration of RMB248,381,153 and to purchase certain interest in MP CardioFlow held by Chenxue Investment and Jianyi Xinghe at an aggregate consideration of RMB181,618,847, respectively. The Initial Investment will be carried out through the following three steps: (i) step I, Chenxue Investment agreed to transfer certain equity interest in MP CardioFlow it holds to the Initial Investors, and the Initial Investors agreed to subscribe certain interest to be newly issued by MP CardioFlow; (ii) step II, Jianyi Xinghe agreed to transfer certain equity interest in MP CardioFlow it holds to the Initial Investors; (iii) step III, the Initial Investors agreed to subscribe certain interest to be newly issued by MP CardioFlow. The parties also agreed that the Original Shareholders and MP CardioFlow shall have the right to introduce additional investors to MP CardioFlow within 60 days upon the completion of step I of the Initial Investment.

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

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

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

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

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

INTEREST IN A COMPETING BUSINESS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

SHARE AWARD SCHEME

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

SHARE OPTION SCHEMES

PRE-IPO SHARE OPTION SCHEME

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

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme are 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 31 December 2017, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represented 11.51% 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 5,851,000.

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

SHARE OPTION SCHEME

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

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

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

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue as at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. As at 31 December 2017, 104,624,604 Shares were available for issue under the Share Option Scheme, which represented 7.18% of the issued share capital. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time.

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

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

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

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

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

During the year, 28,617,472 share options were granted and the status of the share options granted up to 31 December 2017 is as follows:

Catatofy of participants	As at 30 June 2017	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 31 December 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
Zhaohua Chang	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	
	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	43,913,636	-	-	-	-	43,913,636						
Consultants												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	500,000	-	-	-	-	500,000						
Employees												HKD7.53
	5,830	-	-	5,830	-	-	23 Apr 2007	23 Apr 2007 – 1 Mar 2013	23 Apr 2008 – 22 Apr 2017	USD0.275	N/A	
	31,000	-	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	-	100,000	-	-	480,000	8 Jul 2010	1 Aug 2010 – 1 Aug 2014	1 Aug 2011 – 7 Jul 2020	USD0.3062	N/A	
	160,500	-	48,500	-	-	112,000	8 Jul 2010	8 Jul 2010 – 8 Jul 2014	8 Jul 2011 – 7 Jul 2020	USD0.3062	N/A	
	7,398,730	-	3,748,730	-	-	3,650,000	9 Jul 2010	9 Jul 2010 – 9 Jul 2014	9 Jul 2011 – 8 Jul 2020	USD0.3062	N/A	
	3,590,000	-	2,481,000	-	-	1,109,000	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	
	125,000	-	-	-	125,000	-	1 Nov 2011	1 Nov 2011 – 1 Nov 2011	1 Nov 2012 – 31 Oct 2021	HKD4.470	HKD4.470	
	7,000,000	-	-	-	-	7,000,000	28 Aug 2012	28 Aug 2018 – 28 Aug 2019	28 Aug 2019 – 27 Aug 2022	HKD3.350	HKD3.350	

Catatofy of participants	As at 30 June 2017	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 31 December 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)
	500,000	–	–	–	–	500,000	7 Sep 2012	7 Sep 2012 – 5 Sep 2017	6 Sep 2013 – 6 Sep 2022	HKD3.330	HKD3.330	
	146,000	–	146,000	–	–	–	22 Oct 2012	22 Oct 2012 – 22 Oct 2019	22 Oct 2013 – 12 Oct 2022	HKD4.210	HKD4.210	
	8,000,000	–	–	–	–	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	–	300,000	–	–	100,000	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	
	1,200,000	–	370,000	–	–	830,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2019	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	5,150,000	–	1,080,000	–	900,000	3,170,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2020	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	6,240,000	–	1,450,000	–	–	4,790,000	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	
	23,990,000	–	820,000	160,000	1,160,000	21,850,000	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	
	9,040,000	–	–	–	–	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	
	2,486,413	–	–	–	–	2,486,413	30 Mar 2017	30 Mar 2022	30 Mar 2022 – 29 Mar 2027	HKD5.798	HKD5.70	
	–	2,000,000	–	–	–	2,000,000	25 Aug 2017	25 Aug 2018 – 25 Aug 2022	25 Aug 2018 – 24 Aug 2027	HKD7.418	HKD7.020	
In Aggregate	79,988,028	2,000,000	11,075,230	165,830	2,185,000	68,561,968						
Total	124,401,664	2,000,000	11,075,230	165,830	2,185,000	112,975,604						

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.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the reporting period.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the financial year ended 31 December 2017 as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

DONATION

During the reporting period, the Company made donations of approximately US$113,144.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on 14 May 2018. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK$2.5 cent (tax inclusive) per Share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on Wednesday, 23 May 2018 and also to recommend the offer to the shareholders the right to select as an alternative, to receive such final dividend wholly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the AGM and the granting by the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued pursuant thereto.

Once the relevant resolution is passed at the AGM, the proposed final dividend is expected to be paid on or about Wednesday, 15 August 2018. Dividend warrants and share certificates for new shares to be issued under the Scrip Dividend Scheme will be dispatched by ordinary mail on or about Wednesday, 15 August 2018. The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 December 2017.

On condition that the payment of the above final dividend is approved by the shareholders at the AGM, a circular containing details of the Scrip Dividend Scheme will be dispatched to the shareholders on or about Friday, 13 July 2018.

TAX ALLOWANCES

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

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 9 May 2018 to 14 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 8 May 2018 (Hong Kong Time), being the last registration date.

The proposed final dividend for the year ended 31 December 2017 is subject to approval by the shareholders at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 18 May 2018 to Wednesday, 23 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 17 May 2018 (Hong Kong Time), being the last registration date.

CORPORATE GOVERNANCE

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

AUDITORS

KPMG has acted as auditors of the Company for the financial year ended 31 December 2017. KPMG has been the auditors of the Company for the past eight years.

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

MISCELLANEOUS

The Company was not aware of any shareholders who had waived or agreed to waive any dividend arrangement for the year ended 31 December 2017.

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

Shanghai, the PRC
27 March 2018

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the financial year ended 31 December 2017.

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

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2017, the Company complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Listing Rules with the exceptions as addressed below:

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

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

THE BOARD/BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

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

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

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

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

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

BOARD COMPOSITION

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

As at 31 December 2017, the Board comprises eight members, consisting of one executive Director, four non-executive Directors and three independent non-executive Directors.

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

The Board of the Company comprises the following Directors:

EXECUTIVE DIRECTOR:

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

NON-EXECUTIVE DIRECTORS:

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen
Ms. Janine Junyuan Feng

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

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

Throughout the financial year ended 31 December 2017, the Board at all-time met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise, and the Board at all times met the requirement of the Listing Rules in regard of independent non-executive Directors to constitute one-third of an issuer's board.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

During the year 2017, an in-house seminar was conducted covering the rights and obligations of Directors, especially in information disclosure, inside information, connected transactions, dealing of securities of the Company, compliance of Model Code, and so on. All Directors attended the seminar.

BOARD MEETINGS

FUNCTIONS

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

BOARD PRACTICES AND CONDUCT OF MEETINGS

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

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

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

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

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

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

DIRECTORS' ATTENDANCE RECORDS

During the financial year ended 31 December 2017, six Board Meetings were held for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company; an annual general meeting was held for reviewing and approving financial statements, re-election of directors, re-appointment of auditors, etc..

The attendance records of each Director at the Board meetings and the AGM during the term of office as a Director during the year ended 31 December 2017 are set out below:

Name of Director	Attendance/Number of Board meetings held during the term of office of the Director Concerned	Attendance/Number of Annual General Meeting held during the term of office of the Director Concerned
Executive Director		
Dr. Zhaohua Chang	6/6	1/1
Non-executive Directors		
Mr. Norihiro Ashida	6/6	1/1
Mr. Hiroshi Shirafuji	6/6	1/1
Ms. Weiwei Chen	5/6 Note (1)	0/1 Note (2)
Ms. Janine Junyuan Feng	6/6	1/1
Independent Non-executive Directors		
Mr. Jonathan H. Chou	5/6 Note (1)	0/1 Note (2)
Dr. Guoen Liu	5/6 Note (1)	1/1
Mr. Chunyang Shao	6/6	1/1

Note:

(1) Ms. Weiwei Chen, Mr. Jonathan H. Chou and Dr. Guoen Liu did not attend the Board meeting held in their tenure in person due to other business engagement, but they reviewed the documents provided by the Company and appointed proxy for voting at the Board meeting.

(2) Ms. Weiwei Chen and Mr. Jonathan H. Chou did not attend the annual general meeting of the Company for the year 2016 in person due to other business engagement.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for transactions in the Company's securities throughout the financial year ended 31 December 2017.

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

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

DELEGATION BY THE BOARD

BOARD COMMITTEES

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

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

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

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

AUDIT COMMITTEE

The Company established an audit committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee comprises three members:

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

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

The main duties of the Audit Committee include the following:

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

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

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2017, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held 3 meetings during the year ended 31 December 2017. The attendance records of each member at the Audit Committee meetings during the year ended 31 December 2017 are set out below:

Name of Members concerned	Attendance/Number of meetings held during the term of office of the Audit Committee member
Mr. Jonathan H. Chou *(Chairman)*	3/3
Mr. Norihiro Ashida	3/3
Mr. Chunyang Shao	3/3

REMUNERATION COMMITTEE

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

The Remuneration Committee comprises three members:

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

Majority of the members are independent non-executive Directors.

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

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

The Remuneration Committee held 3 meetings during the year ended 31 December 2017. The attendance records of each member at the Remuneration Committee meetings during the year ended 31 December 2017 are set out below:

Name of Members concerned	Attendance/Number of meetings held during the term of office of the Remuneration Committee member
Dr. Guoen Liu *(Chairman)*	2/3 Note (1)
Mr. Jonathan H. Chou	3/3
Dr. Zhaohua Chang	3/3

Note:

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

NOMINATION COMMITTEE

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

The Nomination Committee comprises three members:

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

Majority of the members are independent non-executive Directors.

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

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

During the financial year ended 31 December 2017, a meeting of Nomination Committee was held. Ms. Weiwei Chen did not attend the meeting in person due to other business engagement, while she appointed Mr. Chunyang Shao as her proxy to vote in the meeting.

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

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the forthcoming AGM of the Company. In accordance with the Company's Articles of Association, Ms. Janine Junyuan Feng, Dr. Guoen Liu and Mr. Jonathan H. Chou shall retire and be eligible to offer themselves for re-election at the forthcoming AGM.

EXECUTIVE COMMITTEE

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

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

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

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

During the reporting period, CEC and IEC held meetings periodically and frequently to carry out their duties.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the financial year ended 31 December 2017.

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

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

AUDIT COMMITTEE

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

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

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

The activities carried out by the Audit Committee during the year are set out in this Corporate Governance Report on page 53 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

Internal Audit Department conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, information security and so on.

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

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

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

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Monitoring procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Company would appoint independent consultancy firm to conduct a thorough review of risk management and internal control systems of the Company and its subsidiaries on regular intervals basis when necessary.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 85 to 91 in this annual report.

For the financial year ended 31 December 2017, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (US$'000)
KPMG	1,076

The audit service performed by KPMG related to the statutory audit of the Group's consolidated financial statements for the financial year ended 31 December 2017.

Non-audit Services

Auditors	Fees (US$'000)
KPMG	727

During the year ended 31 December 2017, non-audit services performed by KPMG are primarily in relation to a proposed acquisition.

COMPANY SECRETARY

Ms. Yee Har Susan Lo of Tricor Services Limited, the external service provider, has been engaged by the Company as the Company Secretary since 26 March 2010. The primary contact person at the Company is Ms. He Li, the Board Secretary of the Company. They are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management. During 2017, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

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

SHAREHOLDER RIGHTS

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

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

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

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

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

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

CONTACT DETAILS

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

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

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

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2017.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the significant changes that have occurred since the end of 2017 to the date of approval of this report.

By Order of the Board
Microport Scientific corporation
Dr. Zhaohua Chang
Chairman

Shanghai, The PRC, 27 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

MicroPort Scientific Corporation's Environmental, Social and Governance ("ESG") Report 2017 is prepared in compliance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. MicroPort considers sustainability as a direction for its long-term development. The purpose of the report is not only to communicate our management approaches and performances to our stakeholders, but also to comprehensively introduce our ongoing sustainable development activities that are directed towards the society and environment in which we operate.

REPORTING PERIOD AND SCOPE

This report presents information relevant to ESG performance of MicroPort Scientific Corporation, and its subsidiaries in the PRC and US, the related activities and information for the fiscal year, from 1 January 2017 to 31 December 2017.

CEO MESSAGE

Dear Stakeholders,

As a leading medical technology group, we are committed to delivering the best therapeutic solutions and medical devices while operating in a sustainable way. With our expansion to the CRM business overseas in Europe in 2017, our products and services are reaching a broader market. Therefore we understand our corporate social responsibility and are strive to engage with a wider group of stakeholders on our Environmental, Social and Governance performance. Our efforts do not stop here as we envisage ESG reporting as a strategic long-term exercise and take this as an opportunity to scrutinize management practices that are material to stakeholders, for example, product responsibility, environmental protection, supplier management, talent acquisition, etc. Over time, we aim to create value for our operations, our stakeholders and the society.

Our products provide life-changing treatments to patients and we are well-aware that the highest standards of product quality is the top priority, second to none. As such, we maintain a robust research and development ("R&D") team to ensure product innovation for sustainable health improvement for the patients. In 2017, we invested US$58.2 million and US$17.5 million in R&D projects at research and development stages, respectively. We also monitor our products through the entire life-cycle through detailed product assurance procedures and well-developed supply chain management. With a long term vision of operating a smart factory, we have also taken steps to innovate our quality inspection procedures with smart technologies, assuring product quality and at the same boosting production efficiency.

The environmental, health and safety ("EHS") aspects are under the scrutiny of the Company's comprehensive EHS management system. While we acknowledge the impact of our operations on the environment, we strive to maximize resources utilization efficiency and mitigate emissions through promoting green office measures and implementing cleaner production. During the year, the Company's main subsidiaries have obtained a Cleaner Production Audit Certificate and Shanghai Pudong Environmental Integrity Corporation award, demonstrating our efforts for managing environmental impacts.

Talent is pivotal to our environmentally sustainable development. During the year, we further strengthened our system for leadership succession, launching leadership development project and outstanding executive managerial skills enhancement project. We value each employee for the dedicated contribution to our success and continuous growth. By striving to provide a respectful and safe workplace, we make sure our employees are able to align their personal development with our sustainable business goals.

Sustainability is not a fad. As we continue to grow, we will slowly but surely embed sustainability into our strategic decision making. And we will remain vigilant about embracing regulatory changes. For example, we take all necessary actions to comply with the Environmental Protection Tax Law, which has become effective in China on 1 January 2018.

I would like to take this opportunity to thank all our employees, customers, business partners, shareholders, government departments and the wider community for the efforts and commitment to support MicroPort. We look forward to their contribution and engagement to our journey towards a sustainability.

By Order of the Board
Dr. Zhaohua Chang
Chairman

Shanghai, 27 March, 2018

OPERATIONAL EXCELLENCE

Product safety and quality is our prime concern since patients' health and lives are at stake. MicroPort pledges to maintain strict control over the entire quality assurance process, from research and development, product design, procurement, to manufacturing and risk management. We also strive to uphold the highest ethical standards in our operations.

QUALITY ASSURANCE

MicroPort's quality and supervision department monitors products according to relevant laws and standards. We complied to the Product Quality Law of the PRC in taking responsibilities for quality of all our products. Our laboratory in Shanghai and orthopedic laboratory in Tennessee are accredited with ISO 9001[1] and ISO 13485[2] and our Shanghai laboratory is also certified by CNAS[3], in accordance with ISO/IEC 17025[4]. During the year, the Company is not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to product quality and safety issues.

Our quality assurance process involves thorough tests on each manufacturing procedure, raw materials, semi-finished and finished products against a series of indicators required by relevant standards. Tests include pharmaceutical analysis and fatigue testing, metallic materials being subject to additional composition tests to ensure they do not contain harmful substances and are safe for the patients. All non-conformities are handled following the Material Review Board Process. Regular training is provided to employees in both China and the US.

The Company communicates with its customers on product quality regularly. A customer service survey is conducted annually for global customers, and a Quality Management Review is prepared as reference for future product improvement. In 2017, there were no cases of product recalls due to health and safety reasons.

Moreover, we manage and mitigate product safety risks throughout the whole product life-cycle. As early as during the stages of research and development and product design, risk management procedure is conducted to evaluate and eliminate potential hazards. We strive to maintain a high level of automation and informatization throughout the manufacturing process to ensure high product quality. The table below shows initiatives taken during the year in enhancing product quality management.

Initiatives on Enhancing Quality 2017	
Complying to CFDA requirements	We strictly follows the latest CFDA "guidance on quality control and finished product release for medical devices", which focus on incoming, in-process and outgoing inspection standards and procedures.
Leak testing	Leak testing has been performed to increase accuracy in identifying product defects, preventing unqualified products entering the market.
Smart and intelligent inspections	With an aim to minimize human direct contact of the products, we modified the quality inspection process of stents with smart technologies, preventing product contamination and hereby increasing the efficiency of inspections by 18%.
Informationalization and automation	In the long term, MicroPort is moving towards smart factory, which is motivated by innovation and product quality (see figure 1). In 2017, we successfully applied paperless release system, making sure the products reached the required standards before releasing. We have also conduct analysis and improvements on automation software in regions where we operate, paving the way smart quality control process in the future.

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

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

3 China National Accreditation Service for Conformity Assessment.

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

Internal and external audits are conducted at our subsidiaries for the purpose of standardizing quality management system. We have passed the on-site auditing for ISO 13485:2016 in 2017 with newly revised procedures and management systems. Quality manual has been updated including control procedures for unqualified products, manufacturing and customer related processes etc., further raising the standards of our quality control. During the year, the company passed all 8 external audits completed by organizations from all over the world according to relevant laws and regulations, including Notified Bodies of the European Union, regulatory authorities in China and South Korea as well as independent certification bodies.

SUPPLY CHAIN MANAGEMENT

Controlling the supply chain through close partnership with our suppliers is another way to ensure product safety and quality. We have constructed an effective communication mechanism with all suppliers regarding sustainability issues. We have 4,113 suppliers in China, 274 in the US and 215 in the rest of the world. We follow our procurement management system when selecting suppliers, which lays out purchasing procedures, requirements and personnel responsible. Potential suppliers are required to satisfy our policies and requirements on quality and environment.

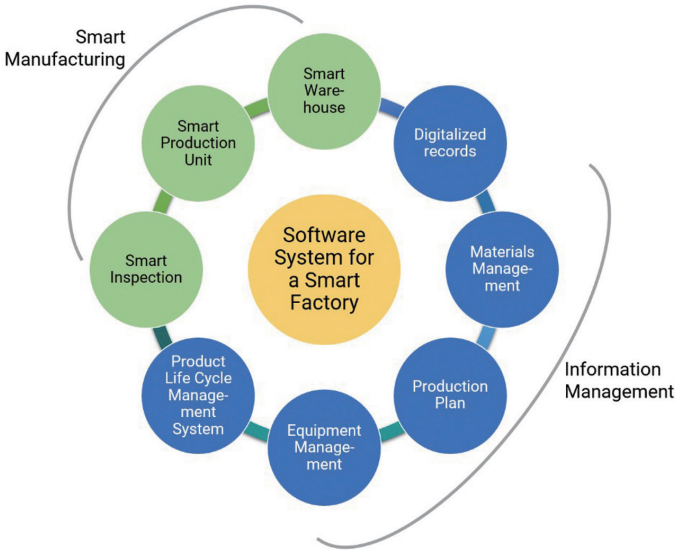


Figure 1

Materials purchased are inspected according to our quality standards before passing on to storage. Any unqualified materials are handled according to agreed contract terms, including demanding corrections, seeking inspection from third parties, or being sent back to the suppliers. Suppliers are evaluated in accordance with quality performance and monitoring procedure on a quarterly basis, in terms of acceptance rate and on-time delivery rate. All supplier information and procurement records are kept in a digitalized SAP ("Systems Application and Products in Data Processing") system.

INTELLECTUAL PROPERTY RIGHTS

MicroPort values intellectual property as one of its most valuable assets. Our strong R&D team which accumulates intellectual property which are the driver of our business success. The rightful use of intellectual property are done in accordance to relevant laws and regulations, scrutinized by the legal department. In 2017, we have applied for 205 patents and 49 trademarks worldwide. At the end of 2017, we have a total of 3,077 patents (application) in 28 countries and 1,292 trademarks (application) in 64 countries. During the year, there was no reported incident of violation of intellectual property rights, patents or trademarks.

PRIVACY POLICY

We take responsibility to protect information in all forms, especially confidential health information of patients. Policy and measures are established in accordance to the Law of the PRC on Protection of Consumer Rights and Interests in managing the use of all individually identifiable information relating to 1) an individual's past, present or future physical or mental health or condition; 2) the provision of health care to an individual; or 3) payment for providing health care to an individual. The Company strictly monitors and prevent information leakage, including applying regulations for visitors and restricting internal communication and circulation of information to those who "need to know". Authorization must be obtained before destroying information and proper destruction method is used in order to ensure complete destruction. In addition to protecting information of patients, we comply with laws and regulations on confidentiality or proprietary information received from customers or suppliers, so to protect the vital interests of the company and its business partners. During the year, the Group was not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to customer privacy matters.

ADVERTISING AND PROMOTION

MicroPort believes in fair and accurate advertising. To ensure advertisements and product claims comply with the Company's policies, all advertisements must be reviewed by the Regulatory and Legal Department, ensuring truthful contents before dissemination. No alterations and changes are allowed to be made on promotional materials once approval have been given, while distribution of outdated materials are strictly prohibited. We follow the Advertising Law of the PRC in conducting our advertising activities. During the year, the Group was not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to advertising issues.

ANTI-CORRUPTION

The Company implements policies designed to comply with relevant laws and regulations relating to bribery, extortion, fraud and money laundering, including but not limited to Criminal Law of the PRC. During the reporting period, the Company does not aware of any non-compliance with laws and regulations having a significant impact on the Group on bribery, extortion, fraud and money laundering, nor any legal cases regarding corrupt practices brought against the Company or the employees.

MicroPort has specified relevant reporting procedures and for other inquiries, both categorized into inquiries regarding reports of actual or possible violations of the Code and confidential complaints related to accounting matters, corporate fraud or violation of laws. The procedures for handling the complaints involve providing the receipt for complaints received, review of compliance by audit committee, review by compliance officer, investigation, action following investigation and record retention.

To ensure ethical business operations with our business partners, especially with health care professionals, the Business Code of Conduct and Ethics is established to clarify obligations for Company Representatives (including all employees, officers and directors, distributors, contractors and suppliers) for proper conduct. All representatives are strictly required to follow the Code as they conduct partnerships. Anyone who violates the provisions of the Code is subject to disciplinary action including termination of employment. Any willful disregard of criminal statutes underlying the Code will be reported to the authorities.

ENVIRONMENTAL PROTECTION

MicroPort's products offer relief to millions of people, yet, environment is not only a matter to millions of people but everyone. We are committed to offering the best products without compromising our environment. In 2017, we were glad to be awarded the Shanghai Pudong Environmental Integrity Corporate Award.

ENVIRONMENTAL MANAGEMENT SYSTEM

The Company has implemented various measures and procedures to manage its environmental performance, such as Environmental Check List, recycling of metals procedure, special waste disposal procedure and empty containers disposal procedure. With various guidelines and policies in place, the Company continuously monitors its environmental performance to minimize environmental impacts as best as it can. In 2017, there was no violation of laws and regulations regarding environmental issues.

CLEANER PRODUCTION AUDIT

Pursuing environmental excellence is a long-term goal of the Company. To be fully committed, we have conducted a Cleaner Production Audit in our Shanghai operations since 2015, aiming to evaluate each production process and explore potential for energy conservation, waste reduction and emission minimization. By adopting various environmental measures, not only can we run a business in an environmentally responsible manner, in long run our business can also become more sustainable and create substantial economic value in return.


上海市清洁生产审核项目验收合格证

证书编号：沪验CP第20161109

上海微创医疗器械（集团）有限公司

（注册/生产地址：上海市浦东新区牛顿路501号）

你单位根据《中华人民共和国清洁生产促进法》要求，开展清洁生产审核工作，通过清洁生产方案的实施，达到了预期效果。经评审，项目验收合格，颁发此证。

上海市推进清洁生产办公室

发证日期：2016年11月

The Cleaner Production Audit is guided by the local and national laws and regulations, such as the Law of the PRC on the Promotion of Clean Production and Shanghai Environmental Protection Ordinance. By conducting Cleaner Production Audit, we ensure compliance with all relevant laws and regulations. The cleaner production audit is managed by a Clean Production Audit Committee consisting of the managements of different departments to ensure an orderly and smooth implementation of this audit. Our operation in Shanghai has obtained a Cleaner Production Audit Certificate in 2016 which marked a milestone in environmental achievement.

EIA CONDUCTED PRIOR TO NEW CONSTRUCTION PROJECT

As our business grows, we need to set up new facilities to meet business demand. For every new construction project, we take environmental considerations into account and ensure compliance with environmental laws and regulations. Before building our preclinical medical research center in Shanghai, we conducted a complete Environmental Impact Assessment before the commencement of construction. Through the assessment, we evaluated the possible environmental impacts of our research center and identified mitigation measures. In this project, 5% of the total investment amount was assigned to environmental measures such as sewage water treatment, noise management, solid waste treatment, etc. For another project, such as the vascular invention medical device production project, we also conducted an environmental impact assessment and expect to invest 200 thousand RMB, accounting for 1% of the total investment, in environment mitigation measures. With our thoughtful consideration of environmental protection, both projects passed the Environmental Impact Assessment and obtained construction approval from the PRC Environmental Department.

ENERGY AND RESOURCES CONSERVATION

ENERGY

We constantly explore the potential for saving energy. At our headquarters and research center, we conduct a monthly enterprise data analysis to figure out energy consumption pattern and suggest various ways to reduce energy consumption. The analysis shows that purifying air-conditioners accounted for approximately half of the electricity consumption. Therefore, we reduced the use of purifying air-conditioners by combining the space of a few factories to minimize the energy consumption.

In 2017, we actively evaluated the possibility of energy-saving. At our production sites, we replaced the traditional utility frequency air compressors with variable frequency air compressors. Traditional air compressors, due to the long-lasting problems of energy inefficiency, instability of pressure and gas leakage, account for a substantial part of electric power consumed in production facilities. Newer models of air compressors have variable frequency drives which enable the motor to operate at variable speed so that the air compressor can control its output as well as the pressure.

With a better control, the new models of air compressors enhance energy efficiency which in other words reduces the use of electricity. At our offices, we advocate energy-saving by adopting energy-efficient lighting, so our US offices have replaced florescent lamps with LED. In addition, we regulated the operational hours of central air-conditioners and educated employees to strengthen their environmental awareness. In 2017, the total indirect consumption energy, i.e. electricity, accounted for approximately 32 million kWh, while the total direct energy consumption in the forms of petrol, diesel and natural gas accounted for 21,482.72 litres, 19,170 litres and 496,879 m^3 respectively. The total energy consumption accounted for approximately 138,100.07 GJ and the energy intensity was 0.31GJ per one thousand of revenue in USD.

Energy Consumption	Unit	Amount
Total energy consumption	GJ	138,100.07
Energy intensity	GJ/USD ('000)	0.31
Electricity	kWh	32,606,944.00
Petrol	litres	21,482.72
Diesel	litres	19,170.00
Natural gas	m^3	496,879.00

WATER USAGE

The major sources of water usage are offices daily operations and production. The Company confirms there has not been any issues with our use of municipal water in our operations. To develop an effective water usage management, we evaluated the proportion of water used in different units. Among all units, offices, purification factory and cafeteria account for the largest proportion of water usage.

To reduce the water usage, we constantly improve and optimize the production process. Meanwhile, we regularly monitor water meters to spot unusual water usage, so we can immediately respond and undertake corrective measures. Apart from monitoring the water meters, we conduct monthly inspection to check whether there are any water leakages in the factories, water supply systems, fire facilities and so on. At our US operations, water saving measures such as installing low flow faucets throughout the campus have been implemented. In 2017, water consumption was 160,292 cubic metres and the water consumption intensity was 0.36 cubic metre per one thousand of revenue in USD.

EMISSIONS MANAGEMENT

In 2017, all our emissions were in compliance with local and national environmental standards and we obtained the assurance from a third party specialist. We have implemented various measures to manage the amount of emissions. In our US operations, an Environmental Check List was established to assess the environmental impacts and update its existing permits due to the change in process including any equipment replacement. Prior to the process change, we would identify the change in waste streams and new sources of waste generation. Then we would anticipate the disposal methods for proper emission management.

MITIGATION OF AIR EMISSIONS

During the production process, the major forms of exhaust gases are produced in the process of pickling, electropolishing, purification of chemical reagents as well as drug spraying. While for other daily operations, the exhaust gas is mainly composed of fumes from canteens. We have installed a fume purification device to purify the gas through electrostatic adsorption.

At our new preclinical medical research center, due to the nature of preclinical tests, the center generates animal odor and formaldehyde, volatile organic compounds (VOCs). To mitigate the impact of VOCs, we have installed an activated carbon adsorption device, which is effective to reduce VOCs to a standard level. At MicroPort Orthopedics in US, VOCs is the major source of emissions during the manufacturing process, contributing to 1.52 tons of VOCs emissions during 2017.

Other sources of air emissions are generated from vehicles usage, which accounted for 0.62 kg, 484.25 kg and 43.73 kg of sulphur oxides (SOx), nitrogen oxides (NOx) and particulate matter (PM) respectively in 2017.

Emission of Air Pollutants	Unit	Amount
SOx	kg	0.62
NOx	kg	484.25
PM	kg	43.73

GHG EMISSIONS

Based on the calculation of our energy use, the total Greenhouse gases (GHG) emissions under Scope 1 were 1,182.01 tonnes of carbon dioxide equivalent (tCO_2e) while the total GHG emissions under Scope 2 were 21,585.40 tCO_2e.

Greenhouse Gases (GHG) Emissions	Unit	Amount
Direct emissions	tCO_2e	1,182.01
Indirect emissions	tCO_2e	21,585.40
Total GHG emissions	tCO_2e	22,767.41
Total GHG emission intensity	tCO_2e/USD ('000)	0.05

PACKAGING MATERIALS

Our packaging materials comprise of plastic bags, cartons, cardboard boxes and so on. Cardboard boxes used in production process can be reused, though we do not reuse or recycle materials in our finished products at this stage. We mainly use virgin materials for outer packaging of finished goods to ensure stronger protective properties. In 2017, total plastic bags used were 511,369 pieces, the total cartons used were 484,622 pieces and the total trays and lidstock used were 1,090,288 pieces.

SEWAGE MANAGEMENT

To ensure our production plants meet all local and national standards such as wastewater quality standards for discharge to municipal sewers, our sewage is treated properly before discharge. In 2017, our appointed third party assured that our Shanghai operation complied with relevant sewage discharge standards. At our US operation, we installed a Process Water Neutralization System to maintain a pH value within permitted level.

HAZARDOUS AND NON-HAZARDOUS WASTE

Waste generated in production and municipal solid waste are the two major types of solid waste. They are stored separately for different handling methods. Municipal solid waste is collected by sanitation department daily, while solid waste generated in production processes may consist of hazardous materials such as chemical containers, organic solution, acidic solution and so on, and are stored in the hazardous waste repository, to be collected by entrusted and qualified third party. In our Shanghai operations, we have entrusted qualified company to manage disposal of hazardous waste in a legal and proper manner.

In our US operations, we have various waste management procedures in place for proper handling of waste, including Special Waste Procedure and Universal Waste Procedure. We ensure our entire management of waste adheres to the local requirements such as the Tennessee Waste Minimization Law. The Special Waste Procedure facilities the efficient disposal of special waste such as metal dust, electrical discharge machines ("EDM") filters, etc.. Each department/personnel have assigned specific role to play.

The engineering department considers the type and amount of waste that may be generated form new equipment or processes, then completes the Environmental Check List and submits to the Department of Heath, Safety and Environment ("HSE department") department. The HSE department conducts analytical testing on all existing special waste streams annually and conducts analytical testing on any new material or process change that may affect the existing stream. While every employee should be aware not to combine waste or waste streams without approval and instructions from the department supervisor and HSE. Whenever spillage, leakage, accidental discharge or any violation of this procedure is discovered, employee should immediately notify emergency response coordinator, department supervisor and HSE department.

Universal Waste Procedure set up instructions to properly handle, recycle or dispose, and track universal waste including batteries, pesticides, mercury-containing equipment and lamps. As stated in the procedure, the universal waste must be sent to an approved universal waste handler and the record of each shipment of universal waste must be maintained. If the universal waste can be recycled such as rechargeable batteries, we will collect and send to an approved recycler.

During the year, a total of 66.51 tonnes of hazardous waste was generated, besides 46.54 tonnes of recycled non-hazardous waste and 43.99 tonnes of disposed non-hazardous waste.

Waste	Unit	Amount (Approximate)
Hazardous waste	kg	66,509.20
Hazardous waste intensity	kg/USD ('000)	0.15
Recycled non-hazardous waste	kg	46,540.00
Disposed non-hazardous waste	kg	43,987.00
Non-hazardous waste intensity	kg/USD ('000)	0.20

NOISE MINIMIZATION

The noise level of our Shanghai operations is assured by a third party, to ensure compliance with relevant laws and regulations such as the Environmental Noise at Boundary of Industrial Enterprises Discharge Standards. For our operations, the major noise sources are wind turbines, air compressors and other equipment. To minimize the noise, we have adopted a series of noise reduction measures such as rational distribution of production equipment, installation of cushions at the bottom of large equipment and strengthening of equipment maintenance. With these noise control measures in place, we aim at minimizing disturbance to the surroundings.

EMPLOYEE CARE

We cannot succeed without the dedication and commitment of all our employees. Our talented and dedicated workforce contributes to our business growth by resolving pressing medical challenges to improve the lives of patients worldwide. As part of our principles, MicroPort is determined to embrace diversity and earn a reputation as an "employer of distinction" by treating all employees as individuals, with respect, honesty and fairness.

EMPLOYEE PRACTICES

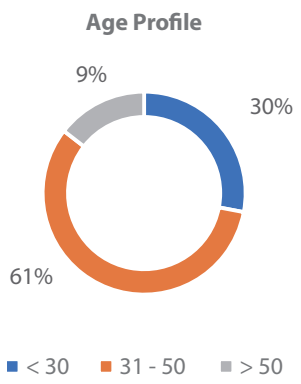
LABOR STANDARDS

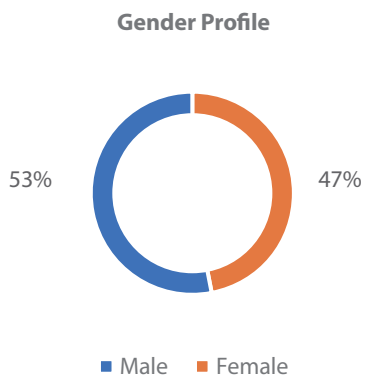
All labor related issues such as working hours, holidays, employment and dismissal procedures are enforced in compliance with the Labor Law of the PRC and Labor Contract Law of the PRC and other relevant laws and regulations in the locations where we operate. There were no violation of labor laws reported during the year.

MicroPort is committed to creating a working atmosphere free of discrimination, bullying and harassment. Discriminatory acts or motives in all phases of employment on the grounds of race, gender, age and any other legally protected status are strictly prohibited in the Company. Employees can report to Human Resources through ethics reporting system if they are subjected to unlawful employment discrimination or any form of harassment. We investigate every case expeditiously, and take appropriate corrective actions once we confirm the allegations. Immediate termination of the employees or lawful enforcement may be taken to those engaging in any threatening behavior or acts of violence to our employees, customers, or visitors. MicroPort does not tolerate retaliation under any circumstances, and it is subject to disciplinary action up to and including termination. We are aiming at ensuring all our employees have a workplace where they are respected, satisfied and appreciated.

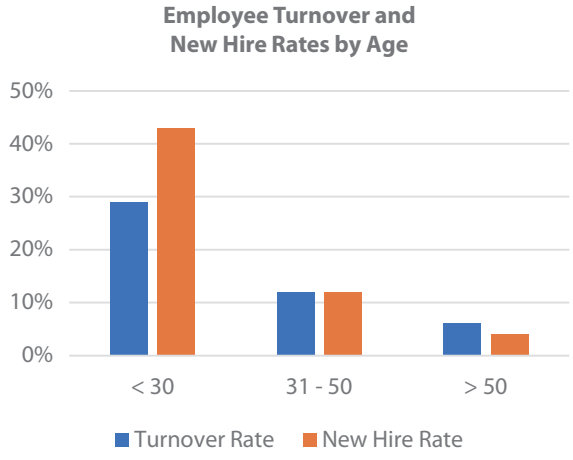
We strictly follow the Regulations on Prohibition to Use Child Labor and People's Republic of China Labor Contract Law. To avoid having child and forced labor, identification documents of newcomers are checked, and labor contracts are based on mutual agreement from both the Company and employees. These measures prevent any form of illegal employment. During the year of 2017, we did not receive any reports on the use of child and forced labor.

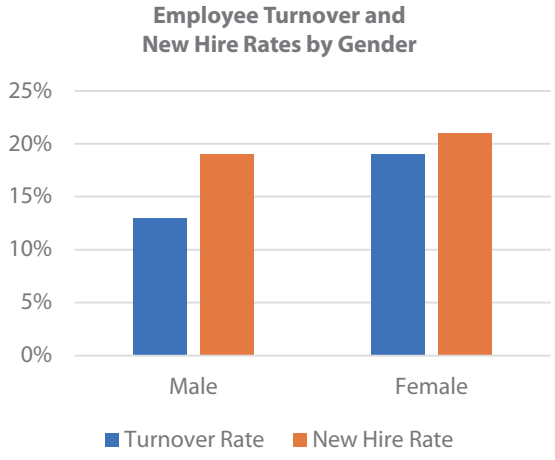
EMPLOYEE PROFILE





As of the end of 2017, we had a total of 3,108 full-time staffs at our headquarters and subsidiaries with approximately 18% in the United States and 76% in China. There are about 53% male and 42% have an undergraduate degree or above. The turnover rate of the staffs at headquarters was 16% while that of the new hire rate was 20%. Distribution by age and gender is presented in the graphs below.





BENEFITS AND COMMUNICATION

EMPLOYEE WELFARE

The objective of the Company's human resources management is to reward and recognize performing staff by providing a competitive remuneration package, including economic benefits and certifications. In addition to statutory benefits, the Company also provides cash bonus plans to employees working in dangerous conditions and working meals for all the entire workforce. The remuneration committee reviews and determines the terms of remuneration packages, bonuses and other compensation payable to our Director and senior management. With comprehensive compensation and benefit plans, we hope to demonstrate our respect to each of our employees, who make a great contribution to the Company's growth.

In addition, we have established policies to manage the working hours and holiday of our employees, such as the Work Attendance Regulation, the Work Overtime Regulation and the Holiday Regulation, ensuring our employees' rights are protected under these policies.

MicroPort is also a family-friendly company which supports breast feeding mothers by accommodating them to store breast milk during their working hours. Both in our China and American working places, we have arranged rooms and corresponding facilities for the nursing mothers. In order to protect their privacy and rights, only those with approval can access into the mothers' rooms and they should not be discriminated against for breastfeeding or expressing milk during the work period.

In order to provide a harmonious working environment to our workforce, some team-building and recreational activities are organised, which have strengthened bonding among employees and relieved from work.

Spring cookout

Employee appreciation picnic

Christmas celebration

LISTENING TO OUR EMPLOYEES

As a people-oriented company, we respect opinion of every employee. Based on the appraisal system results, the senior staff discusses with each of our employees one to one, in order to formulate suitable plans for their personal development with mutual agreement. MicroPort is determined to be a workplace where all employees can thrive and grow to their fullest potential.

OCCUPATIONAL HEALTH AND SAFETY

Ensuring the safety of our employees is a top priority for us. We proactively reduce injury risks and occupational diseases by establishing related management systems and organizing safety training for our workforce. With compliance to the Production Safety Law of the PRC and the Law of the PRC on the Prevention and Treatment of Occupational Diseases. We are aiming at providing a safe and healthy working environment to all our staff. Since production process of our medical devices involve chemicals and special equipment, we also complied to Regulations on the Safety Administration of Dangerous Chemicals Regulations on Safety Supervision over Special Equipment and other relevant laws and regulations. In 2017, there were no non-compliance with laws and regulations having a significant impact on the Group relating to the company's health and safety issues.

HEALTH AND SAFETY MANAGEMENT

To guarantee we operate in a safe manner, we have implemented a series of monitoring systems for achieving this goal, namely, Safety Production Policy Monitoring System, Occupational Health Monitoring System, etc.. The Safety and Production Committee is in-charge of monitoring whether all departments and divisions are complying with all relevant laws and regulations and setting up preventive measures. They have a meeting every quarter for solving safety related production problems. All related monitoring policies are reviewed and evaluated annually, and our employees can access information through internal systems, obtaining the most up-to-date policies.

The Company also takes preventive measures to control occupational diseases under the Occupational Health Monitoring System. Both Property Department and Production Division are responsible for minimizing the potential dangers to our workforce by conducting a monthly safety check of the working environment on the aspects of fire-prevention facilities, water leakage, chemicals storage and treatment, etc. Immediate corrective measures are undertaken if the existing situation is found unsatisfactory. Only well-trained employees can operate at sewage collection sites, and they have to report any cases of leakages to the responsible departments and safety monitors.

In our daily operations, we need to handle different kinds of hazardous and non-hazardous chemicals and, therefore, we have implemented Hazardous Chemicals Management Policy, Special Equipment Safety Management Policy and Personal Protective Equipment Management Policy, for all our staff to handle and monitor the corresponding chemicals and equipment. All used chemicals are examined for compliance with relevant national laws and regulations under the management of Procurement Department. The chemicals must be well-labelled with their names and associated hazards with handling. Our employees and visitors have to wear required personal protective equipment to protect them from unnecessary exposure to chemicals, noise, and any other harmful substances or situation.

Under dangerous working environment, our workers must follow the procedures of the Safe Work Permit. Failing to do so is considered as a violation to MicroPort policy. Both the Facilities Manager and the area supervisor must have signed the Hot Work Permit prior to the beginning of the operations. They need to co-sign with the worker when all of them are satisfied with the safety operations of the duties.

Permits are required for:

- Flame or spark-producing work involving the use of cutting or welding equipment outside the designated Welding Area
- Use of any spark or flame producing equipment in a hazardous area
- Work involving hazards due to chemicals or pressure
- Vessel entry, confined space or closed space entry

The Human Resources and Innovation Institute Department are responsible to schedule employees working in hazardous positions for health check regularly. When any employees are identified as suspected to have occupational diseases, the department arranges alternative positions for them. MicroPort is striving to safeguard health and safety of its employees by eliminating hazards from the workplace and complying with all applicable laws and regulations. During the year of 2017, there were no work-related fatalities reported.

SAFETY TRAINING

Education and knowledge are vital enablers of better health and fuller lives. MicroPort is committed to promoting the culture of production safety and therefore, we have allocated resources for safety training. There are four major categories of programmes and these are three-level safety education programmes for new-comers, specialists training education, transferees and returnees safety education and "four new" education. In 2017, there were safety education programmes aggregating to 2,374 person-times and a total of 6,977 hours.

It is mandatory for all new employees to receive education on laws and regulations related to safety in production established by both the government and the Company, introduction of dangerous and hazardous sources in production processes, and operation of protective gears. Specialists have to be trained in qualified management departments before work. The transferees and returnees are also required to receive safety education for the corresponding position. When the Company adopts new production, new technology, new materials, or new facilities, the technical department is responsible to deliver an education program. All employees need to be assessed after the safety training, otherwise they are prohibited from operating in the position.

In addition, the HSE department has organized a "Safety Month" and drills on fire and chemical leakage, in order to enhance safety awareness of our employees. We have also invited external professionals teams and governmental departments to carry out training and development programmes on health and safety issues. More than 150 employees have received training. It is hoped that the number of occupational accidents and diseases will be reduced with education and training.

Safety practices and procedures evolve over time. In order to ensure our employees keeping pace with the changing safety-related issues, we have established an online learning platform, the MpwrU for our U.S. based employees. Their awareness in maintaining workplace safety will therefore be enhanced, and they are highly encouraged to raise suggestions and ideas for improvement through Suggestion Boxes.

TALENT MANAGEMENT AND EMPLOYEE DEVELOPMENT

PROMOTION MECHANISM

People are regarded as the most important asset and of overriding priority, and we are aiming at providing suitable and valuable opportunities for our talents from time to time. We have a comprehensive promotion mechanism, which comprises a dual-channel for career development, for the managerial and technical staff respectively. They are assessed annually based on their academic qualifications, working experience, professional knowledge and technical skills. Outstanding candidates may be promoted to managerial positions after being approved by the department heads and the general manager. All employees are evaluated by their supervisors and the results are used as reference for implementation of training programs, promotion opportunities, and allocation of salary and bonus. Through this fair and scientific talent appraisal system, the contribution of our employees is well-recognized and that helps create career development opportunities for them.

EMPLOYEE TRAINING

Talent development is another highlight of priorities of the Company. We provide on-the-job, internal and external training to our employees to fulfill their potential and contribute to the long-term development of the Company. In 2017, the Human Resources and Innovation Institute Department organized 206 internal and external training programmes. 4.24 and 10.69 hours of training for male in average in Shanghai and America sites respectively, while the female average are 3.95 and 13.94 hours. There are four categories in the programs, professional, general skills, leadership and tailor-made trainings.

CHINA OPERATION

The Company has implemented a series of training and development schemes based on the needs of our employees, such as newcomers and advanced programs to boost morale and facilitate cutting-edge knowledge learning. We organized professional training for engineers and R&D staffs on the latest development on life science, robotics and industrial design, broadening employees exposure on related topics which we believe will inspire them on product innovation.

In our Shanghai site, we have launched two new projects for our managerial employees this year and both achieved positive results. To recognize excellent talents and motivate employees, we have set up annual awards and arranged the appropriate candidates into important positions. We share our success and economic benefits with our workforce by creating an atmosphere where personal efforts are combined with the future of the Company.

Leadership Development Project:

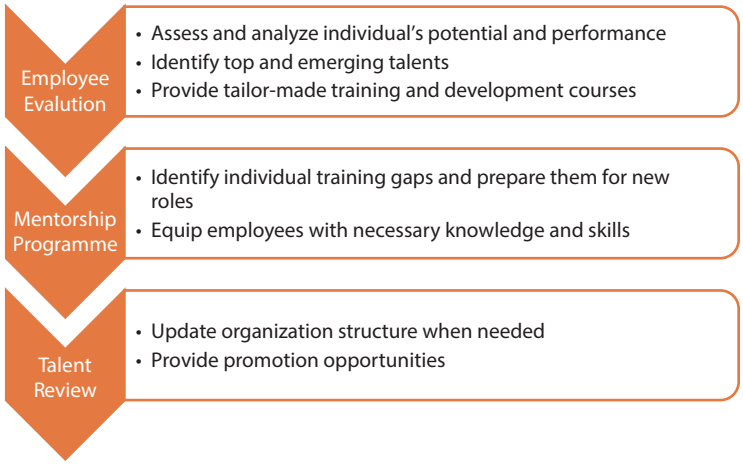
This 6-month long program involved 70 middle level managerial staff. The participants studied 12 different issues related to innovations and effective team-building. Project teams, and online groups are established consisting participants across different departments to encourage sharing of expertise and mutual learning. The teams worked together on real projects where they can put their knowledge into practices in their respective positions.

Outstanding Executive Managerial Skills Enhancement Project:

This project was targeted at junior managerial staff to enhance their core management competencies, which included but not limited to conflicts handling, employee engagement and communication skills. Action plans has been drawn for participants to practice the skills under supervision, assisting them to achieve training goals. We conducted phone-interviews before and after the program, in order to implement the study goals and understand the effectiveness of the scheme. Feedback from participants have been positive.

US OPERATION

In our US operations, we have launched several training programmes based on the training strategy. Under the philosophy of "Leaders' Teach", all our experts and seniors are committed to sharing their experience and expertise through professional training programmes such as the MicroPort Orthopedics Leadership Intensive Programme and the Executive Mentor Programme. The philosophy of "Leaders' Teach" does not only play a significant role in knowledge transfer, but also strengthens the bonding among employees. In 2017, there were 3 programmes for our U.S. based supervisor level or above staffs, namely the Advantage Workshop, the Developing Talent Workshop and the Emotional Intelligence Workshop, which involved total 70 participants. The focus of the workshops are on managing talents, strengthening their teams and maintaining organisational health in order to achieve better performances. The figure below summarizes our talent management strategies through talent review procedures.



MicroPort Orthopedics Leadership Intensive Programme:

This three-day executive-led education consisted of two parts: executives sharing and group presentation by participants. The executives facilitated our attendants to set strategy with our current priorities and initiatives by using real-life examples. Participants then presented their ideas which would impact the business in groups, so they could learn from each other. This programme scored 4.58 out of 5 in evaluation which indicated it benefited to our colleagues.

Executive Mentor Programme:

The company executives are invited to be the mentors of junior employees from other departments. Each executive had determined the goals for his two assigned mentees before engagement. The mentees are responsible for organizing and driving agenda for monthly meetings.

COMMUNITY INVOLVEMENT

IN CHINA

MicroPort has always strived to embed social responsibility in its corporate culture. MicroPort Hope Primary Schools located at Wulian County, Shandong Province and Chishui City, Guizhou Province were founded in 2007 and 2012 respectively. Over the years, the Company has insisted to support the growth of children in rural areas and pass the positive energy through several ways, including donations, scholarships, excellent teacher sponsorships, school facility reconstruction aids and regular visits. Additionally, we have carried out summer camps "Explore the World outside of the Mountains", which allows children to broaden their horizons, building knowledge and confidence and inspiring them to pursue their own life goals. We have also established "MicroPort Inspirational Scholarship Fund" at the Institute of Medical Devices, University of Shanghai for Science and Technology. Special funds of approximately RMB 20 million were donated to Zhangjiang Innovation College, Shanghai University of Technology, and Shanghai Jiaotong University for supporting the development of national education. The Company has a number of medical charity projects aiming at donation of medical equipment to people in ethnic minorities and remote areas. Charity clinics and academic educational activities were also organized to help recover their health situation.

IN THE US

Our subsidiaries in the US spare no efforts in engaging and contributing to the community in areas of health and education. We have raised funds for several charitable organizations. Through participating in a charity walk, we raised USD7,000 for the Arthritis Foundation, supporting the arthritis community in accessing treatment and adapting to life-changing circumstances. We have also sponsored health events in the community, including relay organized by the American Cancer Society, Marathons, drug safety programmes, school sports teams in Arlington, etc..

We have made donations and paid visits to a nursing home and a veteran home during Christmas, with a hope of ensuring the residents are able to receive long-term health care services, and bringing happiness to them during the festive season.

As for education, MicroPort strives to arouse interests of our next generation on science and technology. We closely engage with Arlington High School on STEM programmes, offering students with opportunities to learn about our professions on manufacturing and engineering. We organized tours for students to our facilities, displaying our production lines and technologies. Through participating in Career Day, we hope to inspire students on exploring their potential career paths in our industry.

We have also set up a MicroPort College Scholarship to support the children of our employees. Recipients who have outstanding achievements are awarded.

PERFORMANCE DATA SUMMARY

		Unit		2017
Workforce Demographics	**Total Headcount**			3,108
	By Geographical Distribution			
	China			2,357
	US			548
	Others			203
	By Age			
	<31			944
	31-50			1,876
	>50			288
	By Gender			
	Male			1,654
	Female			1,454
	By Educational Background			
	Degree or above			1,320
	High school or below			1,788
	Employee Turnover Rate at headquarters			
	Total			16%
	By Age			
	<31			29%
	31-50			12%
	>50			6%
	By Gender			
	Male			13%
	Female			19%
	Employee New Hire Rate at headquarters			
	Total			19%
	By Age			
	<31			43%
	31-50			12%
	>50			4%
	By Gender			
	Male			19%
	Female			21%
	Employees Training		China	US

		Unit		2017
	Cumulative Training Percentage			
	By Gender			
	Male		150%	8%
	Female		155%	4%
	By Function			
	Technical		35%	18%
	Marketing and sales		51%	12%
	Production		13%	8%
	Average Training Hours per Person			
	By Gender			
	Male		4.2	10.7
	Female		4.0	13.9
	By Function			
	Technical		2.0	14.5
	Marketing and sales		4.3	11.2
	Production		2.0	10.7
Health and Safety	**Performance of Occupational Health and Safety**			
	Work-related injuries			1
	Lost days due to work-related injury			0
	Work-related fatalities			0
	Safety training	Person-times		2,374
	Safety training hours			6,977
Environment	**Total Resources Consumption**			
	Total energy consumption	GJ		138,100.07
	Total energy intensity*	GJ/USD('000)		0.31
	Electricity	kWh		32,606,944
	Natural gas	m^3		496,879
	Diesel	Liter		19,170
	Gasoline	Liter		21,483
	Steam	Tonnes		2,086
	Tap water	m^3		160,292
	Water intensity*	m^3/USD('000)		0.36
	Total Packaging Materials Consumption			
	Plastic bags	Pieces		511,369
	Plastic bags intensity*	Pieces/USD ('000)		1.15
	Carton	Pieces		484,622
	Carton intensity*	Pieces/USD ('000)		1.09
	Trays and lidstock	Pieces		1,090,288
	Trays and lidstock intensity*	Pieces/USD ('000)		2.45

		Unit		2017
	Emissions			
	Greenhouse gases (GHG) emissions			
	Scope 1: direct carbon emissions	tCO_2e		1,182.01
	Scope 2: indirect carbon emissions	tCO_2e		21,585.40
	Total GHG emissions	tCO_2e		22,767.41
	Total GHG emission intensity*	tCO_2e/USD ('000)		0.05
	Air pollutants			
	SOx	kg		0.62
	NOx	kg		484.25
	PM	kg		43.73
	Solid waste			
	Hazardous waste	kg		66,509.20
	– Intensity*	kg/USD ('000)		0.15
	Non-hazardous waste	kg		90,527.00
	– Intensity*	kg/USD ('000)		0.20
	– Recyclable	kg		46,540.00
	– Non-recyclable	kg		43,987.00

ESG CONTENT INDEX

KPIs	HKEX ESG Reporting Guide Requirements		Section/Remarks
A. Environmental			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Environmental Management System
	KPI A1.1	The types of emissions and respective emissions data.	Emissions Management
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Emissions Management
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Hazardous Waste and Non-Hazardous Waste
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Hazardous Waste and Non-Hazardous Waste
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emission Management
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Hazardous Waste and Non-Hazardous Waste
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.		Energy and Resources Conservation
	KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity.	Energy and Resources Conservation
	KPI A2.2	Water consumption in total and intensity.	Energy and Resources Conservation
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Energy and Resources Conservation
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Energy and Resources Conservation
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Energy and Resources Conservation

KPIs	HKEX ESG Reporting Guide Requirements		Section/Remarks
Aspect A3: The Environment and Natural Resources	**General Disclosure** Policies on minimizing the issuers' significant impact on the environment and natural resources.		Environmental Management System
	KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Management System
B. Social			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Employee Practices
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employee Practices
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employee Practices
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Health and Safety Management
	KPI B2.1	Number and rate of work-related fatalities.	Health and Safety Management
	KPI B2.2	Lost days due to work injury.	Health and Safety Management
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety Management

KPIs	HKEX ESG Reporting Guide Requirements		Section/Remarks
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Talent Management and Employee Development
	KPI B3.1	The percentage of employees trained by gender and employee category.	Talent Management and Employee Development
	KPI B3.2	The average training hours completed per employee by gender and employee category.	Talent Management and Employee Development
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.		Employee Practices
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employee Practices
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employee Practices
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain		Supply Chain Management
	KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management

KPIs	HKEX ESG Reporting Guide Requirements		Section/Remarks
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Operational Excellence
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Operational Excellence
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Operational Excellence
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Operational Excellence
	KPI B6.4	Description of quality assurance process and recall procedures.	Operational Excellence
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Operational Excellence
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-corruption
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Community Involvement
	KPI B8.1	Focus areas of contribution.	Community Involvement
	KPI B8.2	Resources contributed to the focus area.	Community Involvement

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

OPINION

We have audited the consolidated financial statements of MicroPort Scientific Corporation ("the Company") and its subsidiaries ("the Group") set out on pages 92 to 192, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 118.

The Key Audit Matter

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

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

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

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

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

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

How the matter was addressed in our audit

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

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition and management's review of the calculation of and provisions for sales rebates and sales returns;
- inspecting, on a sample basis, key customer contracts to identify terms and conditions relating to goods acceptance, sales rebates and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;
- selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including purchase volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data in the computer system records) to assess whether the methodology adopted in the calculation of the sales rebates was in accordance with the terms and conditions defined in the corresponding customer contract;
- comparing the actual sales rebates and sales returns recorded after the financial year end with the sales rebate and sales return provisions made by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate and sales return provisions and to assess if the related adjustments to revenue had been made in the appropriate financial period;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and
- inspecting underlying documentation for journal entries relating to revenue which were considered to be material or met other specific risk-based criteria.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of intangible assets and goodwill

Refer to note 12 to the consolidated financial statements and the accounting policies on pages 110 to 111.

The Key Audit Matter

The carrying values of the Group's intangible assets and goodwill as at 31 December 2017 were US$83.9 million and US$54.5 million, respectively.

Goodwill arose from the acquisition of the OrthoRecon business of Wright Medical Group, Inc. in 2014 and has been allocated to the orthopedics segment. Intangible assets principally comprise technology, product licenses, customer relationships and capitalised development costs, which have been allocated to various segments.

Management performs annual impairment assessments of the Group's goodwill and intangible assets that are not yet available for use by comparing the carrying values of these assets with their recoverable amounts, which are assessed using the value in use method by preparing discounted cash flow forecasts for each separately identifiable cash-generating unit ("CGU") to which the assets have been allocated.

The preparation of discounted cash flow forecasts involves the exercise of significant management judgment, in particular in assessing future revenue growth, future gross margins, future capital expenditure and working capital movements and in determining the long-term growth rate and appropriate discount rates.

We identified the assessment of potential impairment of intangible assets and goodwill as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, which can be inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of intangible assets and goodwill included the following:

- evaluating management's identification of CGUs and the allocation of intangible assets and goodwill to each CGU and assessing the methodology adopted by management in its impairment assessments with reference to the requirements of the prevailing accounting standards;
- evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing data in the discounted cash flow forecasts with the relevant data, including forecast revenue, forecast cost of sales and forecast operating expenses, in the financial budgets which was approved by the board of directors and with available industry statistics;
- comparing the data in discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified;
- engaging our internal valuation specialists to assist us in comparing the long term growth rates and discount rates applied in the discounted cash flow forecasts with those of comparable companies and external market data;
- performing a sensitivity analysis of key assumptions, including future revenue growth rates, future gross margins and the discount rates applied in the discounted cash flow forecasts and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias in the selection of these key assumptions; and
- considering the disclosures in the consolidated financial statements in respect of management's impairment assessments of intangible assets and goodwill with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Assessing impairment of investments in debt and equity securities

Refer to notes 14, 15, 16 and 17 to the consolidated financial statements and the accounting policies on pages 108 to 109.

The Key Audit Matter

As at 31 December 2017, the Group held (i) debt component of convertible bonds at amortised costs of US$5.4 million; and (ii) certain convertible preference shares and equity investments totalling US$10.6 million, which were classified as interests in associates, interests in a joint venture or available-for-sale securities in the Group's consolidated statement of financial position.

These investments are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If such evidence exists, impairment loss is determined and recognised in accordance with note 1(m)(i) to the consolidated financial statements.

We identified assessing indication of and provision for impairment of investments in debt and equity securities as a key audit matter because of the significance of the amounts of these investments in the consolidated statement of the financial position and because of the degree of judgement exercised by management in determining whether there was objective evidence of impairment and in adopting the assumptions used, particularly in respect of the future cash flows and the discount rate applied, for determining the amount of impairment if objective evidence exists.

How the matter was addressed in our audit

Our audit procedures to assess the impairment of investments of debt and equity securities included the following:

- discussing with management whether there was any objective evidence of impairment of individual investment in debt or equity securities and challenging management's assertions and conclusions with reference to the guidance in the prevailing accounting standards and by (i) obtaining and reviewing the latest financial statements of the issuers of all debt and equity securities; and (ii) conducting news searches of the issuers of all debt and equity securities; (iii) comparing the carrying amount of the investments with recent transaction price, if any;
- obtaining an understanding of management's impairment assessment in respect of the investments in debt and equity securities which had objective evidence of impairment;
- challenging the viability of the recovery plans and considering other sources of repayment asserted by management in respect of future cash flows adopted in the impairment assessment; and
- involving our internal valuation expert in our discussion with management to understand the rationale, and assess the appropriateness and the consistency, of the methodologies used and the key assumptions applied.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

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

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	2017 US$'000	2016 US$'000
Revenue	*3*	**444,190**	389,921
Cost of sales		**(125,793)**	(118,243)
Gross profit		**318,397**	271,678
Other revenue	*4*	**9,867**	13,333
Other net (loss)/gain	*4*	**(12,407)**	7,344
Research and development costs		**(58,150)**	(51,897)
Distribution costs		**(137,766)**	(128,464)
Administrative expenses		**(66,804)**	(64,245)
Other operating costs		**(5,276)**	(1,818)
Profit from operations		**47,861**	45,931
Finance costs	*5(a)*	**(13,489)**	(16,704)
Gain on disposal of subsidiaries	*28(b)*	**6,531**	–
Share of losses of associates		**(5,493)**	–
Share of losses of a joint venture		**(5,042)**	(3,941)
Profit before taxation	*5*	**30,368**	25,286
Income tax	*6(a)*	**(13,417)**	(10,217)
Profit for the year		**16,951**	15,069
Attributable to:			
Equity shareholders of the Company		**18,823**	14,141
Non-controlling interests		**(1,872)**	928
Profit for the year		**16,951**	15,069
Earnings per share	*9*		
Basic (in cents)		**1.31**	0.99
Diluted (in cents)		**1.28**	0.98

The notes on pages 100 to 192 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

	2017 US$'000	2016 US$'000
Profit for the year	**16,951**	15,069
Other comprehensive income for the year, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**34,258**	(29,584)
Other comprehensive income for the year	**34,258**	(29,584)
Total comprehensive income for the year	**51,209**	(14,515)
Attributable to:		
Equity shareholders of the Company	**52,107**	(14,934)
Non-controlling interests	**(898)**	419
Total comprehensive income for the year	**51,209**	(14,515)

The notes on pages 100 to 192 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2017 US$'000	31 December 2016 US$'000
Non-current assets			
Investment properties	10	**5,899**	5,720
Other property, plant and equipment	10	**282,280**	248,885
Land use rights	10	**16,224**	15,638
		304,403	270,243
Intangible assets	11	**83,904**	68,152
Prepayments for non-current assets		**2,491**	2,010
Goodwill	12	**54,458**	54,458
Interest in associates	14	**13,998**	11,432
Interest in a joint venture	15	**197**	676
Available-for-sale securities	17	**5,000**	2,000
Deferred tax assets	23(b)	**5,584**	4,739
Other non-current assets		**3,883**	3,364
		473,918	417,074
Current assets			
Inventories	18	**106,160**	100,863
Trade and other receivables	19	**162,242**	128,752
Pledged deposits		**760**	668
Cash and cash equivalents	20	**160,229**	123,694
Derivative financial assets	16	**314**	3,499
		429,705	357,476
Current liabilities			
Trade and other payables	21	**125,085**	96,939
Interest-bearing borrowings	22	**68,819**	108,456
Income tax payable	23(a)	**4,989**	4,621
Derivative financial liabilities		**–**	23
		198,893	210,039
Net current assets		**230,812**	147,437
Total assets less current liabilities		**704,730**	564,511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2017 US$'000	31 December 2016 US$'000
Non-current liabilities			
Interest-bearing borrowings	*22*	**28,235**	40,085
Deferred income	*24*	**24,291**	24,231
Convertible bonds	*25*	**154,421**	147,769
Other payables	*21*	**54,796**	2,664
Deferred tax liabilities	*23(b)*	**3,535**	3,283
		265,278	218,032
NET ASSETS		**439,452**	346,479
CAPITAL AND RESERVES			
Share capital	*27(c)*	**14**	14
Reserves		**401,589**	332,895
Total equity attributable to equity shareholders of the Company		**401,603**	332,909
Non-controlling interests		**37,849**	13,570
TOTAL EQUITY		**439,452**	346,479

Approved and authorised for issue by the board of directors on 27 March 2018.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 100 to 192 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Attributable to equity shareholders of the Company								
		Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2016		14	241,854	955	22,947	21,115	25,634	312,519	5,309	317,828
Changes in equity for 2016:										
Profit for the year		–	–	–	–	–	14,141	14,141	928	15,069
Other comprehensive income		–	–	(29,075)	–	–	–	(29,075)	(509)	(29,584)
Total comprehensive income		–	–	(29,075)	–	–	14,141	(14,934)	419	(14,515)
Capital contribution from non-controlling interests		–	–	–	13,109	–	–	13,109	8,514	21,623
Transfer between reserves		–	–	–	(4,845)	–	4,845	–	–	–
Equity-settled share-based transactions	*26*	–	–	–	2,795	–	–	2,795	–	2,795
Equity component of convertible bonds		–	–	–	17,485	–	–	17,485	–	17,485
Appropriation of statutory general reserve		–	–	–	–	775	(775)	–	–	–
Shares issued under share option scheme	*27(c)(iii)*	–	4,604	–	(1,718)	–	–	2,886	–	2,886
Shares purchased under share award scheme	*26(b)*	–	–	–	(5,774)	–	–	(5,774)	–	(5,774)
Shares issued under the settlement of other current liabilities	*27(c)(iv)*	–	1,973	–	–	–	–	1,973	–	1,973
Shares granted under share award scheme	*26(b)*	–	–	–	2,850	–	–	2,850	–	2,850
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	(672)	(672)
Balance at 31 December 2016		14	248,431	(28,120)	46,849	21,890	43,845	332,909	13,570	346,479

The notes on pages 100 to 192 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	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 2017:										
Profit for the year		–	–	–	–	–	18,823	18,823	(1,872)	16,951
Other comprehensive income		–	–	33,284	–	–	–	33,284	974	34,258
Total comprehensive income		–	–	33,284	–	–	18,823	52,107	(898)	51,209
Capital contribution from non-controlling interests and disposal of partial equity interests in subsidiaries	*28*	–	–	–	14,964	–	–	14,964	25,163	40,127
Equity-settled share-based transactions	*26*	–	–	–	4,271	–	–	4,271	14	4,285
Appropriation of statutory general reserve		–	–	–	–	955	(955)	–	–	–
Shares issued under share option scheme	*27(c)(iii)*	–	8,836	–	(3,358)	–	–	5,478	–	5,478
Shares purchased under share award scheme	*26(b)*	–	–	–	(9,617)	–	–	(9,617)	–	(9,617)
Shares granted under share award scheme	*26(b)*	–	–	–	4,918	–	–	4,918	–	4,918
Change in carrying amounts of share repurchase obligations	*21*	–	–	–	(1,132)	–	–	(1,132)	–	(1,132)
Dividends paid in respect of the previous year	*27(b)*	–	1,215	–	–	–	(3,510)	(2,295)	–	(2,295)
Balance at 31 December 2017		14	258,482	5,164	56,895	22,845	58,203	401,603	37,849	439,452

The notes on pages 100 to 192 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

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

	Note	2017 US$'000	2016 US$'000
Operating activities			
Cash generated from operations	20(b)	**107,437**	89,875
Income tax refund received		**3,141**	–
Tax paid:			
– The People's Republic of China ("PRC") income tax paid		**(11,901)**	(5,933)
– Non-PRC income tax paid		**(1,491)**	(1,408)
Net cash generated from operating activities		**97,186**	82,534
Investing activities			
Payments for the purchase of property, plant and equipment		**(58,038)**	(49,866)
Proceeds from sale of property, plant and equipment		**169**	2,060
Insurance compensation received in respect of damage of property, plant and equipment		**3,678**	–
Payments for intangible assets		**(20,132)**	(15,821)
Proceeds from government grants related to non-current assets		**1,088**	–
(Increase)/decrease in pledged deposits and time deposits		**(92)**	2,308
Interest received		**868**	843
Payments for the investment in convertible bonds	16	**–**	(10,000)
Payments for the investments in associates		**(2,800)**	(5,000)
Payments for acquisition of available-for-sale securities	17	**(3,000)**	(2,000)
Net payments for the settlement of other current liabilities		**–**	(5,335)
Payments for capital contribution to a joint venture	15	**(4,548)**	–
Loans to a joint venture		**(8,320)**	(4,359)
Loans repaid by a joint venture		**1,486**	4,359
Loans repaid by an associate		**3,609**	–
Disposal of subsidiaries, net of cash disposed		**(138)**	–
Net cash used in investing activities		**(86,170)**	(82,811)

The notes on pages 100 to 192 form part of these financial statements.

	Note	2017 US$'000	2016 US$'000
Financing activities			
Repayments of the Otsuka Loans	*22(b)*	**(40,000)**	–
Net proceeds from the issuance of convertible bonds		**–**	64,837
Proceeds from other interest-bearing borrowings, net of transaction costs	*20(c)*	**6,943**	18,028
Repayments of other interest-bearing borrowings	*20(c)*	**(18,335)**	(57,000)
Proceeds from disposal of partial equity interests in subsidiaries		**53,795**	–
Capital contributions from non-controlling interests		**31,791**	14,914
Proceeds from shares issued under the share option scheme	*27(c)(iii)*	**5,478**	2,886
Interest paid for the Otsuka Loans	*22(b)*	**(385)**	(673)
Interest paid for the convertible bonds	*25*	**(3,154)**	(3,113)
Interest paid for other interest-bearing borrowings		**(3,839)**	(4,973)
Payment for repurchase of shares under share award scheme	*26(b)*	**(9,617)**	(5,774)
Dividends paid to holders of non-controlling interests		**–**	(995)
Dividends paid to equity shareholders of the Company	*27(b)*	**(2,295)**	–
Net cash generated from financing activities		**20,382**	28,137
Net increase in cash and cash equivalents		**31,398**	27,860
Cash and cash equivalents at 1 January		**123,694**	99,467
Effect of foreign exchange rate changes		**5,137**	(3,633)
Cash and cash equivalents at 31 December	*20(a)*	**160,229**	123,694

The notes on pages 100 to 192 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a joint venture.

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 20(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows*: *Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

(d) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(p), (q) and (s) depending on the nature of the liability.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(e) Associates and joint ventures

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

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

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

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

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

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities

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

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

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

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

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

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

(h) Derivative financial instruments

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment property

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

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

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

(j) Other property, plant and equipment

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

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

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

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

- Freehold land is not depreciated;
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;
- Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 5 to 10 years from the date of completion, and
- Equipment and machinery 10 years
- Office equipment, furniture and fixtures 3 to 10 years
- Motor vehicles 4 to 10 years

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets (other than goodwill)

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

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

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

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

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investments in an associate and a joint venture accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets

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

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

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(n) Inventories

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Trade and other receivables

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

(p) Convertible notes issued

(i) Convertible notes issued that contain an equity component

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

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

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

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

(ii) Other convertible notes issued

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Convertible notes issued (continued)

(ii) Other convertible notes issued (continued)

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

(q) Interest-bearing borrowings

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

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

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

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits

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

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

(ii) Share-based payments

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

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

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

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

(iii) Termination benefits

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) Financial guarantees issued (continued)

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

(ii) Contingent liabilities assumed in business combinations

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

(iii) Other provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue recognition

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

(i) Sale of goods

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

(ii) Rental income from operating leases

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

(iii) Dividends

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

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

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

(v) Government grants

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Translation of foreign currencies

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

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

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

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

(z) Borrowing costs

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

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

(aa) Related parties

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

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

(ii) has significant influence over the Group; or

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties (continued)

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

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

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

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

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

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

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

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

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

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

(ab) Segment reporting

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

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

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 12, 26 and 29 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of inventories

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

(b) Depreciation and amortisation

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

(c) Income tax

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

(d) Impairment of assets

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

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue by major category is as follows:

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

For the years ended 31 December 2017 and 2016, there was no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 29(a).

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

(b) Segment reporting

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

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

(i) Segment results, assets and liabilities

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

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

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

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

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	2017							
	Orthopedics devices business US$'000	Cardiovascular devices business US$'000	Endovascular devices business US$'000	Electrophysiology devices business US$'000	Neurovascular devices business US$'000	Surgical management business US$'000	Diabetes care and endocrinal business US$'000	Total US$'000
Revenue from external customers								
- Sales of medical devices	224,607	165,323	24,793	9,417	13,385	5,498	715	443,738
- Rental income	-	324	-	-	128	-	-	452
	224,607	165,647	24,793	9,417	13,513	5,498	715	444,190
Reportable segment net (loss)/profit	(21,341)	65,535	(327)	(2,018)	2,980	(2,820)	(1,121)	40,888
Depreciation and amortisation for the year	21,180	9,563	785	997	716	1,282	45	34,568
Income tax	2,012	10,226	1,673	-	270	(64)	-	14,117
Increase of inventory provision	1,962	525	267	79	227	387	-	3,447
Impairment losses of								
- Intangible assets	-	-	-	-	-	152	-	152
- Investment in convertible bonds	-	-	1,604	-	-	-	-	1,604
Reportable segment assets	407,087	436,135	40,087	19,692	20,662	28,731	8,633	961,027
Additions to non-current segment assets during the year	29,197	35,191	4,275	965	2,737	527	5,767	78,659
Reportable segment liabilities	154,689	115,116	5,402	11,069	3,146	17,453	-	306,875

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2017 US$'000	2016 US$'000
Profit or loss		
Reportable segment net profit	**40,888**	31,075
Equity-settled share-based payment expenses	**(4,206)**	(2,795)
Unallocated exchange (loss)/gain	**(6,246)**	6,270
Gain on disposal of subsidiaries (note 28(b))	**6,531**	–
Unallocated expenses, net	**(20,016)**	(19,481)
Consolidated profit for the year	**16,951**	15,069
Assets		
Reportable segment assets	**961,027**	805,344
Elimination of inter-segment receivables	**(96,013)**	(85,131)
	865,014	720,213
Unallocated corporate assets:		
– Cash and cash equivalents	**38,420**	54,278
– Others	**189**	59
	38,609	54,337
Consolidated total assets	**903,623**	774,550
Liabilities		
Reportable segment liabilities	**306,875**	281,502
Elimination of inter-segment payables	**(96,013)**	(85,131)
Deferred tax liabilities (note 23(b))	**1,969**	1,855
Convertible bonds (note 25)	**154,421**	147,769
Derivative financial liabilities	**–**	23
Interest-bearing borrowings	**39,719**	80,355
Other payables (note 21)	**52,275**	–
Unallocated corporate liabilities	**4,925**	1,698
Consolidated total liabilities	**464,171**	428,071

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographic information

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

Revenue from external customers

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

Specified non-current assets

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

4 OTHER REVENUE AND NET (LOSS)/GAIN

	2017 US$'000	2016 US$'000
Other revenue		
Government grants (note)	**8,159**	12,448
Interest income on bank deposits	**1,171**	843
Interest income on the convertible bonds (note 16)	**537**	42
	9,867	13,333

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

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

	2017 US$'000	2016 US$'000
Other net (loss)/gain		
Net loss on disposal of property, plant and equipment	**(715)**	(560)
Net foreign exchange (loss)/gain	**(11,006)**	6,733
Changes in fair value of embedded financial derivatives	**(3,162)**	263
Impairment losses of the convertible bonds (note 16)	**(1,604)**	–
Insurance compensation in respect of damage of property, plant and equipment	**3,678**	–
Others	**402**	908
	(12,407)	7,344

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2017 US$'000	2016 US$'000
Interest on the Otsuka Loans	**30**	2,758
Interest on the convertible bonds (note 25)	**9,806**	8,715
Interest on other interest-bearing borrowings	**3,489**	4,324
Others	**275**	907
Total interest expense on financial liabilities not at fair value through profit or loss	**13,600**	16,704
Less: Interest expense capitalised into properties under development*	**(111)**	–
	13,489	16,704

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

(b) Staff costs

	2017 US$'000	2016 US$'000
Contributions to defined contribution retirement plan	**10,993**	9,816
Equity-settled share-based payment expenses (note 26(e))	**8,736**	5,645
Cash-settled share-based payment expenses	**4,184**	1,670
Salaries, wages and other benefits	**128,760**	120,096
	152,673	137,227

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

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

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

5 PROFIT BEFORE TAXATION (CONTINUED)

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

	2017 US$'000	2016 US$'000
(c) Other items		
Amortisation#		
– land use rights (note 10)	**367**	378
– intangible assets (note 11)	**5,908**	5,670
	6,275	6,048
Depreciation of investment properties and other property, plant and equipment# (note 10)	**29,230**	30,983
Less: Amounts capitalised as development costs	**(937)**	(950)
	28,293	30,033
Impairment losses		
– trade and other receivables	**2,286**	1,473
– intangible assets (note 11)	**152**	–
– goodwill (note 12)	**–**	999
– convertible bonds (note 16)	**1,604**	–
	4,042	2,472
Operating lease charges: minimum lease payment	**6,510**	7,732
Rental income from investment properties	**452**	311
Research and development costs (other than amortisation costs of intangible assets)##	**55,453**	49,546
Cost of inventories# (note 18(b))	**133,596**	125,068
Auditors' remuneration		
– audit services	**1,076**	1,001
– non-audit services (note)	**727**	–
	1,803	1,001

5 PROFIT BEFORE TAXATION (CONTINUED)

Note: During the year ended 31 December 2017, non-audit services performed by KPMG are primarily in relation to a proposed acquisition.

\# Cost of inventories includes US$41,371,000 (2016: US$39,304,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

\## Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$27,062,000 (2016: US$24,245,000), depreciation of the relevant property, plant and equipment of US$3,404,000 (2016: US$3,395,000) and cost of inventories of US$6,758,000 (2016: US$6,204,000), which are included in the total staff cost as disclosed in note 5(b), depreciation as disclosed in note 5(c) and cost of inventories as disclosed in note 18(b), respectively.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017	2016
	US$'000	US$'000
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**12,595**	9,675
(Over)/under-provision in respect of prior years	**(107)**	195
	12,488	9,870
Current tax – other jurisdictions		
Provision for the year	**1,613**	1,294
Over-provision in respect of prior years	**(44)**	(22)
	1,569	1,272
	14,057	11,142
Deferred tax		
Origination and reversal of temporary differences (note 23(b))	**(640)**	(925)
	13,417	10,217

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

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

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2016: 16.5%) of the estimated assessable profits.

(iii) PRC CIT

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

The CIT law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%.

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

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

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

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

(vi) As at 31 December 2017, based on management's assessment of the probability on the future taxable profit subsequent to the date of the reporting period, no deferred tax assets had been recognised for tax losses and deductible temporary differences of certain loss-making entities.

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

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

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

7 DIRECTORS' EMOLUMENTS

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

	2017					
	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment (note) US$'000	Total US$'000
Executive directors						
Zhaohua Chang	–	96	100	–	1,727	1,923
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Weiwei Chen	–	–	–	–	–	–
Janine Junyuan Feng	–	–	–	–	–	–
Independent non-executive directors						
Jonathan Chou	42	–	–	–	–	42
Guoen Liu	37	–	–	–	–	37
Chunyang Shao	37	–	–	–	–	37
	116	96	100	–	1,727	2,039

7 DIRECTORS' EMOLUMENTS (CONTINUED)

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

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option schemes" in report of the director and note 26.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2016: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2016: four) individual are as follows:

	2017 US$'000	2016 US$'000
Salaries and other benefits	**1,136**	1,353
Retirement scheme contributions	**35**	27
Discretionary bonuses	**541**	856
Equity-settled share-based payment	**706**	323
Cash-settled share-based payment	**775**	209
	3,193	2,768

The emoluments of the four (2016: four) individuals with the highest emoluments are within the following bands:

	2017 Number of Individuals	2016 Number of individuals
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$11,000,000	**1**	1

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$18,823,000 (2016: US$14,141,000) and the weighted average number of ordinary shares of 1,433,678,000 shares (2016: 1,422,891,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$18,823,000 (2016: US$14,141,000) and the weighted average number of ordinary shares of 1,474,699,000 shares (2016: 1,438,090,000 shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows.

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

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

The calculation of diluted earnings per share amount for the year ended 31 December 2017 has not included the potential effect of the deemed conversion of the convertible bonds (note 25) into ordinary shares during the year, as they have an anti-dilutive effect on the basic earnings per share amount for the year.

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

(a) Reconciliation of carrying amount

	Land and buildings held for own use	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Sub-total	Investment properties	Land use rights	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost:										
At 1 January 2016	143,399	15,401	120,714	39,718	3,076	23,049	345,357	–	19,202	364,559
Exchange adjustments	(8,420)	(973)	(4,114)	(1,068)	(193)	(1,312)	(16,080)	(267)	(1,213)	(17,560)
Transfer to investment properties	(6,530)	–	–	–	–	–	(6,530)	6,530	–	–
Transfer from construction in progress	22,737	–	9,317	5,608	–	(37,662)	–	–	–	–
Additions	932	244	7,814	966	55	36,787	46,798	–	–	46,798
Disposals	(1,638)	(140)	(3,564)	(3,438)	(89)	–	(8,869)	–	(349)	(9,218)
At 31 December 2016 and 1 January 2017	**150,480**	**14,532**	**130,167**	**41,786**	**2,849**	**20,862**	**360,676**	**6,263**	**17,640**	**384,579**
Exchange adjustments	**7,881**	**891**	**4,669**	**1,214**	**178**	**2,714**	**17,547**	**386**	**1,087**	**19,020**
Transfer from construction in progress	**3,277**	**–**	**17,844**	**6,291**	**242**	**(27,654)**	**–**	**–**	**–**	**–**
Additions	**18**	**152**	**9,018**	**1,017**	**203**	**42,124**	**52,532**	**–**	**–**	**52,532**
Disposals	**(2,535)**	**(768)**	**(2,583)**	**(812)**	**(286)**	**–**	**(6,984)**	**–**	**–**	**(6,984)**
At 31 December 2017	**159,121**	**14,807**	**159,115**	**49,496**	**3,186**	**38,046**	**423,771**	**6,649**	**18,727**	**449,147**

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

(a) Reconciliation of carrying amount (continued)

	Land and buildings held for own use	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Sub-total	Investment properties	Land use rights	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Accumulated depreciation, amortisation and impairment:										
At 1 January 2016	9,620	6,489	51,681	21,476	2,299	–	91,565	–	1,791	93,356
Exchange adjustments	(593)	(439)	(1,768)	(679)	(152)	–	(3,631)	(23)	(129)	(3,783)
Transfer to investment properties	(431)	–	–	–	–	–	(431)	431	–	–
Charge for the year	4,441	915	18,435	6,794	263	–	30,848	135	378	31,361
Written back on disposals	(702)	(60)	(2,338)	(3,374)	(86)	–	(6,560)	–	(38)	(6,598)
At 31 December 2016 and 1 January 2017	**12,335**	**6,905**	**66,010**	**24,217**	**2,324**	**–**	**111,791**	**543**	**2,002**	**114,336**
Exchange adjustments	**641**	**500**	**2,302**	**927**	**137**	**–**	**4,507**	**40**	**134**	**4,681**
Charge for the year	**4,903**	**1,304**	**16,241**	**6,416**	**199**	**–**	**29,063**	**167**	**367**	**29,597**
Written back on disposals	**(457)**	**(697)**	**(1,718)**	**(727)**	**(271)**	**–**	**(3,870)**	**–**	**–**	**(3,870)**
At 31 December 2017	**17,422**	**8,012**	**82,835**	**30,833**	**2,389**	**–**	**141,491**	**750**	**2,503**	**144,744**
Net book value:										
At 31 December 2017	**141,699**	**6,795**	**76,280**	**18,663**	**797**	**38,046**	**282,280**	**5,899**	**16,224**	**304,403**
At 31 December 2016	138,145	7,627	64,157	17,569	525	20,862	248,885	5,720	15,638	270,243

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

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

	2017 US$'000	2016 US$'000
In the US		
– medium-term leases	**13,144**	14,007
– freehold	**4,839**	4,839
	17,983	18,846
In the PRC		
– medium-term leases	**145,839**	140,657
	163,822	159,503
Representing:		
Investment properties, carried at cost	**5,899**	5,720
Land and buildings held for own use, carried at cost	**141,699**	138,145
Land use rights	**16,224**	15,638
	163,822	159,503

(c) As at 31 December 2017, land use rights and buildings held for own use with net book value of US$9,277,000 and US$114,313,000, respectively (2016: US$4,629,000 and US$76,317,000, respectively) have been pledged as security for certain banking facilities and other borrowings (note 22).

(d) As at 31 December 2017, the investment properties located in Beijing and Shanghai in the PRC were rented out under terms of operating leases. The fair value of investment properties as at 31 December 2017 amounted US$10,080,000 (2016: US$8,217,000), which is determined by reference to the market prices of comparable properties, which has not been evaluated by an independent external valuer.

11 INTANGIBLE ASSETS

	Technologies US$'000	Products licences US$'000	Capitalised development costs US$'000	Customer contracts and related customer relationship US$'000	Trademark and others US$'000	Total US$'000
Cost						
At 1 January 2016	15,252	8,754	39,844	9,810	1,484	75,144
Exchange adjustments	(80)	(559)	(3,227)	(166)	(3)	(4,035)
Additions	–	–	16,622	–	248	16,870
At 31 December 2016 and 1 January 2017	15,172	8,195	53,239	9,644	1,729	87,979
Exchange adjustments	72	505	3,823	150	–	4,550
Additions	–	–	17,535	–	598	18,133
At 31 December 2017	15,244	8,700	74,597	9,794	2,327	110,662
Accumulated amortisation and impairment:						
At 1 January 2016	4,016	3,617	3,231	3,956	107	14,927
Exchange adjustments	(81)	(257)	(303)	(126)	(3)	(770)
Amortisation charge for the year	1,437	630	2,351	1,156	96	5,670
At 31 December 2016 and 1 January 2017	5,372	3,990	5,279	4,986	200	19,827
Exchange adjustments	72	269	410	119	1	871
Amortisation charge for the year	1,400	624	2,651	1,129	104	5,908
Impairment charge for the year	–	152	–	–	–	152
At 31 December 2017	6,844	5,035	8,340	6,234	305	26,758
Net book value:						
At 31 December 2017	8,400	3,665	66,257	3,560	2,022	83,904
At 31 December 2016	9,800	4,205	47,960	4,658	1,529	68,152

Capitalised development costs primarily related to cardiovascular, endovascular, electrophysiology and neurovascular devices business segments. Included in intangible assets were an amount of US$46,775,000 (2016: US$30,101,000) that are not yet available for use. These intangible assets were solely related to capitalised development costs.

11 INTANGIBLE ASSETS (CONTINUED)

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

	2017 US$'000	2016 US$'000
Research and development costs	**2,651**	2,351
Distribution costs	**656**	706
Administrative expenses	**2,601**	2,613
	5,908	5,670

12 GOODWILL

	US$'000
Cost:	
At January 2016	81,482
Exchange adjustments	(1,726)
At 31 December 2016 and 1 January 2017	79,756
Exchange adjustments	1,559
At 31 December 2017	81,315
Accumulated impairment losses:	
At January 2016	26,019
Exchange adjustments	(1,720)
Impairment loss	999
At 31 December 2016 and 1 January 2017	25,298
Exchange adjustments	1,559
At 31 December 2017	26,857
Carrying amount:	
At 31 December 2017	54,458
At 31 December 2016	54,458

(Expressed in United States dollars unless otherwise indicated)

12 GOODWILL (CONTINUED)

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

As at 31 December 2017 and 2016, the balance of goodwill is allocated to OrthoRecon business under the Group's orthopedics devices business segment.

As at 31 December 2017, the recoverable amount of the CGU is determined based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a seven-year period with the final year representing a steady state in the development of the business. Cash flows beyond the seven-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculation as at 31 December 2017 are as follows, which are based on either the past experience or external sources of information:

Annualised revenue growth rate during the forecast period	5%-6%
Gross profit ratio	68%-70%
Steady growth rate used in the extrapolation after 7 years	3%
Pre-tax discount rate	14%

13 INVESTMENTS IN SUBSIDIARIES

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

			Proportion of ownership interest			
Name of company	**Place of incorporation and business**	**Issued/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**Principal activity**
Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai") (上海微創醫療器械(集團)有限公司)[i]	The PRC	US$50,000,000	100%	85.6%	14.4%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Orthopedics Co., Ltd. ("MP Orthopedics") (上海微創骨科醫療科技有限公司)[iii]	The PRC	RMB359,029,750/ RMB1,995,000,000	100%	–	100%	Manufacturing, distribution, research and development of orthopedics devices
MicroPort NeuroTech (Shanghai) Co., Ltd. ("MP Neuro") (微創神通醫療科技(上海)有限公司)[iii]	The PRC	RMB52,764,937/ RMB53,500,000	84.2%	–	84.2%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort EP MedTech Co., Ltd. ("MP EP") (上海微創電生理醫療科技股份有限公司)[iii]	The PRC	RMB70,031,250	81.93%	–	81.93%	Manufacturing, distribution, research and development of electrophysiology devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activity
Suzhou MicroPort Spine and Trauma Co., Ltd. ("Suzhou MicroPort") (蘇州微創脊柱創傷醫療科技有限公司)(iii)	The PRC	RMB30,827,703	100%	–	100%	Manufacturing distribution, research and development of orthopedics devices
MicroPort Orthopedics (Suzhou) Co., Ltd. (微創骨科醫療科技(蘇州)有限公司)(iii)	The PRC	US$62,199,723/ US$320,000,000	100%	–	100%	Manufacturing, distribution, research and development of orthopedics devices
MicroPort Endovascular (Shanghai) Co., Ltd. ("MP Endo") (微創心脈醫療科技(上海)有限公司)(iii)	The PRC	RMB53,978,147	61.79%	–	61.79%	Manufacturing, distribution, research and development of endovascular devices
Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") (東莞科威醫療器械有限公司)(iii)	The PRC	RMB73,125,000	61.54%	–	61.54%	Manufacturing, distribution, research and development of surgical devices
Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow") (上海微創心通醫療科技有限公司)(iii)	The PRC	RMB12,793,939	67.83%	–	67.83%	Research and development of medical devices
MicroPort Urocare (Jiaxing) Co., Ltd. ("Jiaxing Urocare ") (微創優通醫療科技(嘉興)有限公司)(iii)	The PRC	RMB32,500,000	60%	–	60%	Research and development of medical devices
MicroPort Medical (Jiaxing) Co., Ltd. (嘉興微創醫療科技有限公司)(iii)	The PRC	RMB105,000,000/ RMB200,000,000	100%	–	100%	Research and development of medical devices
AccuPath Medical (Jiaxing) Co., Ltd. (脈通醫療科技(嘉興)有限公司)(iii)	The PRC	RMB10,000,000	100%	–	100%	Manufacturing, distribution, research and development of medical devices
Suzhou MicroPort OrthoRecon Co., Ltd. (蘇州微創關節醫療科技有限公司)(iii)	The PRC	RMB20,000,000	100%	–	100%	Manufacturing, distribution, research and development of orthopedics devices
MicroPort Orthopedic Instruments Suzhou Co., ltd. (蘇州微創骨科醫療工具有限公司)(iii)	The PRC	RMB20,000,000	100%	–	100%	Manufacturing, distribution, research and development of orthopedics devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activity
MicroPort Orthopedics Inc.	The US	US$1	100%	–	100%	Manufacturing, distribution, research and development of medical devices
MicroPort Scientific Srl	Italy	EUR2,000,000	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics Japan K.K.	Japan	JPY100,000,000	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics Ltd.	Canada	CAD6,514,941	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics B.V.	The Netherlands	EUR1	100%	–	100%	Distribution of medical devices
MicroPort Scientific GmbH	Germany	EUR25,000	100%	–	100%	Distribution of medical devices
MicroPort Scientific SAS	France	EUR37,000	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics NV	Belgium	EUR61,500	100%	–	100%	Distribution of medical devices
MicroPort Scientific Ltd.	United Kingdom	GBP1	100%	–	100%	Distribution of medical devices
MicroPort Orthopedics Global Supply Center Limited	Hong Kong	HK$100 & US$30,195,000	100%	–	100%	Distribution of medical devices

(i) The subsidiary is a wholly foreign-owned enterprise.

(ii) These subsidiaries are domestic enterprises.

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

The directors are of the view that the Group has no individually material non-controlling interests for the years ended 31 December 2017 and 2016.

14 INTEREST IN ASSOCIATES

	2017 US$'000	2016 US$'000
Investment in associates (see below)	**5,377**	5,000
Investment in convertible bonds issued by an associate (see note 16)	**5,365**	6,432
Amounts due from associates (see note 31b(iii))	**3,256**	–
	13,998	11,432

All of the Group's investments in associates are accounted for using the equity method in the consolidated financial statements.

Interest in Lombard Medical, Inc. ("Lombard")

In December 2016, the Group entered into an investment agreement (the "Investment Agreement") with Lombard, pursuant to which, the Group agreed to subscribe to (1) an aggregate of 8,064,516 ordinary shares of Lombard at a price of US$0.62 per share totalling US$5,000,000; and (2) the convertible bonds in an aggregate principal amount of US$10,000,000, with a term of five years, which may be extended under certain conditions (the "Lombard Convertible Bonds") (see note 16).

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

As at 31 December 2016 and 2017, the Group's ownership interest in Lombard was approximately 28.85% of total share capital (excluding the effect of the conversion of the Lombard Convertible Bonds) as at 31 December 2016 and 2017.

The ordinary shares of Lombard held by the Group accounted for an investment in an associate with a carrying amount of US$5,000,000 as at 31 December 2016.

The Lombard Convertible Bonds bear interest at LIBOR plus 4.0% and contain a conversion option which entitles the Group to convert them into ordinary shares of Lombard at any time during the period commencing from the date of issuance up to the maturity, at an initial conversion price of US$0.90 per share, subject to anti-dilutive clauses. The conversion option is considered as an embedded derivative component of the Lombard Convertible Bonds which is separated from the host contract and remeasured at the end of each reporting period. The changes in fair value is recognised immediately in profit or loss. Any excess of payments over the amount initially recognised as the derivative component is recognised as the debt component. The debt component of the Lombard Convertible Bonds is subsequently carried at amortised cost and classified as a non-current assets. The interest income recognised in profit or loss on the debt component are calculated using the effective interest method.

In November 2017, Lombard was delisted from NASDAQ and put on trade on OTCQX (symbol: EVARF). As at 31 December 2017, the Group's share of losses of Lombard exceeded the Group's investment in ordinary shares of Lombard. The carrying amount of the Group's equity interests in Lombard was reduced to zero. Accordingly, an investment loss of US$5,000,000 was recognised in the consolidated statement of profit or loss during the year.

14 INTEREST IN ASSOCIATES (CONTINUED)

Interest in Lombard Medical, Inc. ("Lombard") (continued)

As at 31 December 2017, the market value of the ordinary shares held by the Group was amounted to US$927,000 (2016: US$4,831,000), estimated by using the closing price of Lombard as of the reporting period end.

Management considered there was objective evidence of impairment on the Lombard Convertible Bonds and reassessed the recoverable amount of the debt component of the Lombard Convertible Bonds as at 31 December 2017. An impairment loss of US$1,604,000 recognised in "Other net (loss)/gain". The movement of the Lombard Convertible Bonds during the year are set out in note 16.

Investments in Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai")

MP Lifesciences Shanghai was previously a wholly-owned subsidiary of the Group, which engaged in manufacturing, distribution, research and development of medical devices under the diabetes care and endocrinal business segment. During 2017, the Group lost control over MP Lifesciences Shanghai which became an associate of the Group accordingly. As at 31 December 2017, the Group's effective interests in MP Lifesciences Shanghai was 40%. Further details of the disposal were set out in note 28(b). MP Lifesciences Shanghai is unlisted whose quoted market price is not available.

The directors are of the view that the Group has no individually material associate as at 31 December 2017. Aggregate information of associates that are not individually material:

	2017 US$'000
Carrying amount in the consolidated financial statements	**5,377**
The Group's effective share of those associates'	
Loss for the year	**(5,493)**
Total comprehensive income	**(5,390)**

15 INTEREST IN A JOINT VENTURE

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

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Goup's Effective interest	Held by the Company	Held by a subsidiary	Principal activity
MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM") (創領心律管理醫療器械(上海)有限公司)	Incorporated	The PRC	Registered capital RMB182,000,000	51%	–	51%	Manufacturing, distribution, research and development of cardiac rhythm management devices

15 INTEREST IN A JOINT VENTURE (CONTINUED)

MicroPort Sorin CRM was established by MP Shanghai and LivaNova Holding SAS (formerly named Sorin CRM Holdings SAS) in 2014. MP Shanghai holds 51% interests in MicroPort Sorin CRM and LivaNova Holding SAS holds the remaining 49% interests. Pursuant to the terms of the joint venture agreement and articles of association of MicroPort Sorin CRM, management of the Group determine that MicroPort Sorin CRM is a joint venture. MicroPort Sorin CRM is an unlisted corporate entity whose quoted market price is not available.

During the year ended 31 December 2017, MP Shanghai and LivaNova Holding SAS contributed RMB30,600,000 (equivalent to US$4,548,000) and RMB29,400,000 (equivalent to US$4,543,000), respectively to MicroPort Sorin CRM and the Group's effective share of MicroPort Sorin CRM's loss for the year was US$5,042,000.

16 INVESTMENT IN LOMBARD CONVERTIBLE BONDS

	Debt component US$'000	**Derivative component** US$'000	**Total** US$'000
As at 1 January 2017	6,432	3,499	9,931
Interest income (note 4)	537	–	537
Impairment losses (note 5(c))	(1,604)	–	(1,604)
Changes in fair value recognised in profit or loss during the year	–	(3,185)	(3,185)
As at 31 December 2017	5,365	314	5,679

17 AVAILABLE-FOR-SALE SECURITIES

	2017 US$'000	2016 US$'000
Unlisted equity securities outside Hong Kong	**5,000**	2,000

18 INVENTORIES

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

	2017 US$'000	2016 US$'000
Raw materials	**14,287**	12,648
Work in progress	**17,262**	17,959
Finished goods	**74,611**	70,256
	106,160	100,863

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017 US$'000	2016 US$'000
Carrying amount of inventories sold	**122,346**	117,329
Increase of inventory provision	**3,447**	914
Cost of inventories sold	**125,793**	118,243
Cost of inventories directly recognised as research and development costs and distribution costs	**7,803**	6,825
	133,596	125,068

19 TRADE AND OTHER RECEIVABLES

	2017 US$'000	2016 US$'000
Trade debtors due from:		
– third party customers	**126,401**	104,125
– related parties (note 31(c))	**837**	1,443
	127,238	105,568
Less: Allowance for doubtful debts (note 19(b))	**(6,099)**	(5,385)
	121,139	100,183
Income tax recoverable (note 23(a))	**–**	2,958
Amounts due from a joint venture	**6,897**	–
Amounts due from the holders of non-controlling interests in relation to the capital contributions (note 28(d))	**9,642**	4,000
Other debtors	**12,849**	10,109
Loans and receivables	**150,527**	117,250
Deposits and prepayments	**11,715**	11,502
	162,242	128,752

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

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

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

Trade debtors are due within 30 to 360 days from the date of billing. Further details of the Group's credit policy are set out in note 29(a).

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(m)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

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

The Group's trade debtors of US$6,099,000 (2016: US$5,385,000) were impaired as at 31 December 2017. The individually impaired receivables related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered.

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

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

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise cash at bank and on hand. As at 31 December 2017, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to US$97,228,000 (2016: US$55,506,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2017 US$'000**	2016 US$'000
Profit before taxation		**30,368**	25,286
Adjustments for:			
Amortisation of land use rights	*5(c)*	**367**	378
Amortisation of intangible assets	*5(c)*	**5,908**	5,670
Depreciation	*5(c)*	**28,293**	30,033
Impairment loss on goodwill	*5(c)*	**–**	999
Impairment loss on investment in convertible bonds	*5(c)*	**1,604**	–
Impairment loss on intangible assets	*5(c)*	**152**	–
Finance costs	*5(a)*	**13,214**	16,704
Interest income on bank deposits	*4*	**(1,171)**	(843)
Interest income on convertible bonds	*4*	**(537)**	(42)
Gains on insurance proceeds in respect of disposal of property, plant and equipment		**(3,678)**	–
Gains on disposal of subsidiaries	*28(b)*	**(6,531)**	–
Changes in fair value of embedded financial derivatives	*4*	**3,162**	(263)
Net loss on disposal of property, plant and equipment	*4*	**715**	560
Share of losses of a joint venture		**5,042**	3,941
Share of losses of associates		**5,493**	–
Equity-settled share-based payment and share award scheme expenses	*5(b)*	**8,736**	5,645
Changes in working capital:			
(Increase)/decrease in inventories		**(3,522)**	1,183
Increase in trade and other receivables		**(15,702)**	(4,955)
Increase in trade and other payables		**37,780**	1,871
(Decrease)/increase in deferred income		**(2,256)**	3,708
Cash generated from operations		**107,437**	89,875

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings $'000 (Note 22)	Convertible notes $'000 (Note 25)	Total $'000
At 1 January 2017	148,541	147,769	296,310
Changes from financing cash flows:			
Proceeds from interest-bearing borrowings, net of transaction costs	6,943	–	6,943
Repayments of interest-bearing borrowings	(58,335)	–	(58,335)
Interest paid for interest-bearing borrowings	(4,224)	–	(4,224)
Interest paid for the convertible notes	–	(3,154)	(3,154)
Total changes from financing cash flows	(55,616)	(3,154)	(58,770)
Exchange adjustments	610	–	610
Other changes:			
Interest expenses (note 5(a))	3,408	9,806	13,214
Capitalised borrowing costs (note 5(a))	111	–	111
Total other changes	3,519	9,806	13,325
At 31 December 2017	97,054	154,421	251,475

21 TRADE AND OTHER PAYABLES

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

Note: In 2017, the Group granted the put options to certain investors, being the non-controlling equity interests of MP CardioFlow, in connection with the deemed disposal of partial equity interests in MP CardioFlow as described in note 28(c).

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

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

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

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

22 INTEREST-BEARING BORROWINGS

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

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

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

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

22 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) Bank loans

At 31 December 2017, the bank facilities of the Group were secured by land use rights and buildings held for own use with net book value of US$8,725,000 and US$110,750,000, respectively (2016: US$4,094,000 and US$72,743,000, respectively).

(b) Otsuka Loans

The Company entered into a credit agreement (the "Credit Agreement") dated 15 December 2013 with Otsuka Medical Devices Co., Ltd. ("Otsuka Medical Devices"), a subsidiary of Otsuka Holdings Co., Ltd., being the Company's major shareholder. Pursuant to the Credit Agreement, Otsuka Medical Devices agreed to provide to the Company certain credit facilities of up to US$200,000,000, consisting of three tranches of loans, namely, the Term A Loan, Term B Loan and Term C Loan (collectively, the "Otsuka Loans").

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

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

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2017 US$'000	2016 US$'000
Provision for the year	**14,208**	10,969
Provisional tax paid	**(10,045)**	(7,283)
Exchange adjustments	**(13)**	(50)
	4,150	3,636
Balance of profits tax provision relating to prior years	**839**	(1,973)
	4,989	1,663

	2017 US$'000	2016 US$'000
Represented by:		
Income tax recoverable (note 19)	**–**	(2,958)
Income tax payable	**4,989**	4,621
	4,989	1,663

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax (assets)/liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Accrued expense** US$'000	**Withholding tax on retained profits of a PRC subsidiary** US$'000	**Fair value adjustments in respect of net assets acquired in business combinations** US$'000	**Others** US$'000	**Total** US$'000
At 1 January 2016	(3,108)	1,981	1,112	(331)	(346)
Exchange adjustments	159	(126)	(76)	(142)	(185)
(Credited)/charged to profit or loss	(986)	–	136	(75)	(925)
At 31 December 2016 and 1 January 2017	**(3,935)**	**1,855**	**1,172**	**(548)**	**(1,456)**
Exchange adjustments	**(237)**	**114**	**22**	**148**	**47**
(Credited)/charged to profit or loss	**(804)**	**–**	**(137)**	**301**	**(640)**
At 31 December 2017	**(4,976)**	**1,969**	**1,057**	**(99)**	**(2,049)**

Reconciliation to the consolidated statement of financial position:

	2017 US$'000	2016 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(5,584)**	(4,739)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**3,535**	3,283
	(2,049)	(1,456)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(v), the Group has not recognised deferred tax assets in respect of cumulative tax losses attributable to certain subsidiaries of US$156,344,000 at 31 December 2017 (2016: US$123,723,000), as the directors consider that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

As disclosed in note 6(a), the Tax Act revised the net operating loss carry forward period from 20 years to indefinite. The accumulated tax losses of approximately US$110,223,000 incurred by the Group's subsidiaries in the US do not expire under the Tax Act. The tax losses incurred by PRC subsidiaries of US$1,370,000, US$1,742,000, US$4,102,000, US$9,712,000 and US$29,195,000 will expire in 2018, 2019, 2020, 2021 and 2022 respectively.

(d) Deferred tax liabilities not recognised

At 31 December 2017, temporary differences relating to the undistributed profits of PRC subsidiaries amounted to US$320,244,000 (2016: US$238,012,000). Deferred tax liabilities of US$32,024,400 (2016: US$23,801,200) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 DEFERRED INCOME

	Note	**Government subsidies for research and development projects** US$'000	**Others** US$'000	**Total** US$'000
At 1 January 2016		22,079	12	22,091
Additions		11,723	–	11,723
Government grant recognised as other revenue	*4*	(8,010)	(5)	(8,015)
Exchange adjustments		(1,563)	(2)	(1,565)
At 31 December 2016 and 1 January 2017		**24,229**	**5**	**24,234**
Additions		**4,439**	**–**	**4,439**
Government grant recognised as other revenue	*4*	**(5,602)**	**(5)**	**(5,607)**
Exchange adjustments		**1,225**	**–**	**1,225**
At 31 December 2017		**24,291**	**–**	**24,291**

The current portion of deferred income is included in trade and other payables in note 21.

25 CONVERTIBLE BONDS

In May 2014, the Company issued the convertible bonds in an aggregate principal amount of US$100,000,000 to GIC Special Investments Pte Ltd., which is wholly owned by Government of Singapore Investment Corp ("GIC"), with a maturity date of 11 May 2019 (the "GIC Convertible Bonds"). The GIC Convertible Bonds bear interest at LIBOR plus 1% on the outstanding balances. Pursuant to the terms of the GIC Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into fully paid ordinary shares of the Company at an initial conversion price of HK$6.84 per share, subject to adjustments under certain terms and conditions of the GIC Convertible Bonds.

In January 2016, the Company issued the convertible bonds in an aggregate principal amount of US$65,000,000 to Erudite Parent Limited and Owap Investment Pte Ltd., which is ultimately controlled by Carlyle Group L.P. and GIC, respectively, with a maturity date of 13 January 2021 (the "Carlyle Convertible Bonds"). The Carlyle Convertible Bonds bear interest at LIBOR plus 1% on the outstanding balances. Pursuant to the terms of the Carlyle Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into fully paid ordinary shares of the Company at an initial conversion price of HK$3.85 per share, subject to adjustments under certain terms and conditions of the Carlyle Convertible Bonds.

Based on the terms of the GIC Convertible Bonds and the Carlyle Convertible Bonds, these convertible bonds will be settled by exchange of a fixed amount of cash in US$ with a fixed number of the Company's equity instruments. In accordance with the Group's accounting policy set out in note 1(p)(i), these convertible bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

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

	Liability component US$'000	**Equity component** US$'000	**Total** US$'000
As at 1 January 2017	147,769	28,059	175,828
Interest charged during the year (note 5(a))	9,806	–	9,806
Interest paid during the year	(3,154)	–	(3,154)
As at 31 December 2017	154,421	28,059	182,480

Both the GIC Convertible Bonds and the Carlyle Convertible Bonds are subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenant, these convertible bonds would become payable on demand. The Group regularly monitors its compliance with the covenants. As at 31 December 2017, none of the covenants relating to the GIC Convertible Bonds and the Carlyle Convertible Bonds had been breached.

No conversion of the above convertible bonds had been occurred up to 31 December 2017.

26 SHARE-BASED PAYMENT TRANSACTIONS

(a) The 2006 and 2010 share option plans (equity-settled)

On 3 September 2010, the Company approved a 10-for-1 share split (the "Share Split") of the Company's ordinary shares conditional on the completion of IPO. The 10-for-1 split also applies to the Company's share option plans. Accordingly, the number of share options and exercise price information presented below in respect of the share option plans have been adjusted retrospectively to reflect the 10-for-1 share split effect as if the Share Split had occurred at the beginning of the years presented.

On 26 August 2006, the Company adopted a share incentive plan (the "2006 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the executives, employees and external consultants of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

On 3 September 2010, the Company adopted a share option plan (the "2010 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the directors, employees or business associates of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

On 9 March 2010, the Board approved a modification to the 2006 Option Plan, to reduce the exercise price from US$0.425 to US$0.3062 for the share options granted on 17 May 2007, 14 June 2007, 25 July 2008 and 1 December 2008. The reduction of exercise prices of the above share options resulted in an incremental fair value of US$316,000 at the modification date. The incremental fair value is being recognised as equity-settled share-based payment expenses over the remaining vesting period.

26 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values at the grant date of the grants are as follows:

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to executives and directors on:				
2 March 2007	36,353,620	5,342	0.15	0.19
2 April 2007	1,450,000	153	0.11	0.28
14 June 2007	500,000	31	0.06	0.31
25 July 2008	3,700,000	333	0.09	0.31
1 December 2008	4,200,000	587	0.14	0.31
21 October 2009	6,000,000	1,207	0.20	0.31
9 July 2010	28,648,730	7,838	0.27	0.31
9 August 2010	5,000,000	1,608	0.32	0.31
7 September 2012	500,000	73	0.15	0.43
22 October 2012	500,000	84	0.17	0.54
2 January 2013	500,000	86	0.17	0.55
28 August 2013	250,000	55	0.22	0.64
9 December 2013	400,000	91	0.23	0.72
21 January 2014	650,000	184	0.28	0.69
28 August 2014	500,000	118	0.24	0.61
20 January 2015	29,400,000	4,459	0.15	0.41
30 June 2015	300,000	53	0.18	0.50
7 December 2015	2,000,000	306	0.15	0.39
30 March 2016	40,970,000	6,737	0.16	0.45
27 June 2016	700,000	122	0.17	0.50
1 September 2016	750,000	199	0.27	0.64
23 January 2017	23,340,000	7,308	0.31	0.72
30 March 2017	3,277,472	950	0.29	0.74
25 August 2017	2,000,000	559	0.28	0.95
	191,889,822	38,483		

26 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values at the grant date of the grants are as follows (continued):

The above share options are vested in instalments over an explicit vesting period of four to six years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to employees on:				
23 April 2007	7,500,000	791	0.11	0.28
6 February 2009	250,000	34	0.14	0.43
8 July 2010	1,230,940	363	0.30	0.31
17 October 2011	500,000	136	0.27	0.62
1 November 2011	750,000	185	0.25	0.58
28 August 2012	10,000,000	1,354	0.14	0.43
10 December 2012	13,300,000	2,354	0.18	0.59
	33,530,940	5,217		

The above share options are vested in instalments over an explicit vesting period of four to seven years. The vesting schedule of each employee is different and is determined based on the date of employment. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to consultants on:				
17 May 2007	1,500,000	97	0.06	0.31
14 June 2007	500,000	33	0.07	0.31
	2,000,000	130		

26 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values at the grant date of the grants are as follows (continued):

The above share options are vested in instalments over an explicit vesting period of four to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of options is ten years. The options granted on 14 June 2007 are exercisable upon an IPO of the Company's shares which was completed in September 2010.

	Number of options	**Fair value** US$'000	**Weighted average fair value per share option** US$	**Weighted average exercise price** US$
Options granted under a business combination:				
25 June 2012	4,000,000	411	0.10	0.42
Total options granted	231,420,762	44,241		

The Group granted 4,000,000 shares options to the former shareholder of an acquired business on 25 June 2012. The options are vested on 25 June 2016.

(ii) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Weighted average exercise price US$	**Number of options**	Weighted average exercise price US$	Number of options
Outstanding at the beginning of the year	**0.43**	**102,927,530**	0.41	81,388,390
Granted during the year	**0.74**	**28,617,472**	0.45	42,420,000
Exercised during the year	**0.35**	**(15,986,140)**	0.34	(12,912,350)
Forfeited during the year	**0.47**	**(5,083,258)**	0.47	(7,968,510)
Outstanding at the end of the year	**0.52**	**110,475,604**	0.43	102,927,530
Exercisable at the end of the year	**0.39**	**16,351,000**	0.34	23,092,530

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from January 2018 through August 2027. As at 31 December 2017, the weighted average remaining contractual life for the share options granted under the 2006 and 2010 share option plans was 5.80 years (2016: 5.41 years).

(Expressed in United States dollars unless otherwise indicated)

26 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2006 and 2010 share option plans (equity-settled) (continued)

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	**2017**	2016
Fair value at measurement dates	**HK$1.75 to HK$2.62**	HK$1.02 to HK$2.24
Share price	**HK$5.19 to HK$9.10**	HK$3.36 to HK$4.95
Exercise price	**HK$5.63 to HK$7.42**	HK$3.48 to HK$4.95
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**39.55% to 40.10%**	40.20% to 40.85%
Option life	**10 years**	10 years
Suboptimal exercise factor	**1.35 to 1.71**	1.50 to 1.77
Expected dividend yield	**0.33%**	0%
Average risk-free interest rate	**1.54% to 1.73%**	0.95% to 1.31%
Forfeiture rate	**0% to 4.83%**	0% to 4.18%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as the Group. Changes in the subjective input assumptions could materially affect the fair value estimate. Expected dividend yield is based on historical dividends.

In respect of share options granted during 2017 and 2016, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

(b) Share award scheme (equity-settled)

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. For the year ended 31 December 2017, the Company granted 7,118,378 shares (2016: 6,361,486) to the Group's executives with a fair value of US$4,918,000 (2016: US$2,850,000) and purchased 10,535,000 shares (2016: 10,515,000 shares) at cash consideration of US$9,617,000 (2016: US$5,774,000).

The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

26 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) Employee share purchase plans ("ESPP") (equity-settled)

Prior to 2017, the Group had adopted several ESPPs, pursuant to which, the Group agreed to transfer 11%, 15%, 15.8% and 13.3% equity interests in MP Endo, MP EP, MP Neuro and MP CardioFlow to respective partnership firms, whose partners consisted of employees of the Group.

During 2017, the Group adopted ESPPs in respect of MP Lifesciences Shanghai (see note 28(b)), Dongguan Kewei (see note 28(d)) and Jiaxing Urocare (see note 28(d)) and transferred partial equity interests of these three entities to partnership firms.

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

No expense was recognised in relation to the ESPPs adopted during 2017, as the transfer consideration approximates to the fair value of the equity interests transferred.

(d) Subsidiary share option scheme (equity-settled)

In September 2017, MP EP adopted a subsidiary share option scheme (the "EP Option Scheme"), which was approved by the Company and MP EP in June 2017 and September 2017, respectively. The EP Option Scheme provides the managements and employees of MP EP with the options to acquire proprietary interests in MP EP. Each option gives the holder the right to subscribe for one ordinary share of MP EP.

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to managements and employees of MP EP on:				
14 September 2017	2,100,000	312	0.15	RMB5.93

The above share options are vested in instalments over an explicit vesting period of five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of options is ten years.

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. Key assumptions include share price of MP EP and expected volatility, etc.

26 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(e) Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss during the current and prior years:

	2017 US$'000	2016 US$'000
Research and development costs	**1,401**	1,430
Distribution costs	**2,014**	1,570
Administrative expenses	**5,321**	2,645
	8,736	5,645

The compensation expense was reflected as equity-settled share-based payment expenses with a corresponding increase in the capital reserve of the Group.

(f) Long-term incentive awards (cash-settled)

In 2014, the Board approved a long-term incentive (the "LTI") scheme. The Group may grant the LTI awards to certain overseas employees of the Group under the LTI scheme, pursuant to which the eligible employees will be entitled to receive payments in cash at the time that such awards vest. The LTI awards will vest 25% on each of the first four anniversaries of the grant date. The settlement shall be made in cash as promptly as practicable but in no event after the thirtieth day following the applicable vesting date. The settlement amount will be determined based on the share price of the Company's ordinary shares at the dates specified in the LTI awards agreement and the unit of awards that shall have vested on such dates.

During the year ended 31 December 2017, 2,080,196 (2016: 5,111,624) and 2,467,785 (2016: 2,762,851) LTI awards were granted and exercised, respectively and 689,006 (2016: 2,770,280) LTI awards were forfeited prior to the vesting as a result of the resignation of employees.

As at 31 December 2017, the number of outstanding and exercisable LTI awards was 9,814,928 and nil, respectively (2016:10,931,612 and nil). The liabilities arising from the LTI awards was US$4,271,458 (2016: US$3,630,250), which were included in the trade and other payables.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	**Share capital** US$'000	**Share premium** US$'000	**Capital reserve** US$'000	**Retained earnings** US$'000	**Total** US$'000
Balance at 1 January 2016		14	241,854	14,723	211,815	468,406
Changes in equity for 2016:						
Total comprehensive income		–	–	–	(8,902)	(8,902)
Equity-settled share-based transactions		–	–	2,505	–	2,505
Equity component of convertible bonds		–	–	17,485	–	17,485
Shares issued under share option scheme	*27(c)(iii)*	–	4,604	(1,718)	–	2,886
Shares purchased under share award scheme	*26(b)*	–	–	(5,774)	–	(5,774)
Shares granted under share award scheme	*26(b)*	–	–	2,850	–	2,850
Shares issued under the settlement of other current liabilities	*27(c)(iv)*	–	1,973	–	–	1,973
Balance at 31 December 2016 and 1 January 2017		14	248,431	30,071	202,913	481,429
Changes in equity for 2017:						
Total comprehensive income		**–**	**–**	**–**	**5,815**	**5,815**
Equity-settled share-based transactions		**–**	**–**	**3,990**	**–**	**3,990**
Shares issued under share option scheme	*27(c)(iii)*	**–**	**8,836**	**(3,358)**	**–**	**5,478**
Shares purchased under share award scheme	*26(b)*	**–**	**–**	**(9,617)**	**–**	**(9,617)**
Shares granted under share award scheme	*20(b)*	**–**	**–**	**4,918**	**–**	**4,918**
Dividends approved in respect of the previous year	*27(b)*	**–**	**1,215**	**–**	**(3,510)**	**(2,295)**
Balance at 31 December 2017		**14**	**258,482**	**26,004**	**205,218**	**489,718**

(b) 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.

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

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Ordinary shares

	2017 Number of shares '000	2017 Amount US$'000	2016 Number of shares '000	2016 Amount US$'000
Authorised:				
Ordinary shares of US$0.00001 each	**5,000,000**	**50**	5,000,000	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,439,481**	**14**	1,426,569	14
Shares issued under share option plans (note 27(c)(iii))	**15,986**	**–**	8,912	–
Shares issued in lieu of cash dividends (note 27(b))	**1,596**	**–**	–	–
Shares issued under the settlement of other current liabilities (note 27(c)(iv))	**–**	**–**	4,000	–
At 31 December	**1,457,063**	**14**	1,439,481	14

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase of own shares

During the year, the Company purchased its own ordinary shares on The Stock Exchange of Hong Kong Limited under the share award scheme (see note 26(b)) as follows:

Month/year	No. of shares repurchased	Highest price paid per share US$	Lowest price paid per share US$	Aggregate considerations paid US$'000
February 2017	1,614,000	0.75	0.73	1,195
April 2017	800,000	0.72	0.69	565
May 2017	3,018,000	0.72	0.67	2,120
November 2017	4,503,000	1.18	1.05	5,138
December 2017	600,000	1.01	0.98	599
	10,535,000			9,617

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

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iii) Shares issued under the share option plans

Shares issued under the share option plans during the year are summarised as follows:

	No. of share options exercised	Consideration US$'000	Credited to/(transferred from) Share capital US$'000	Share premium US$'000	Capital reserve US$'000
Options exercised in:					
January 2016	464,590	149	–	255	(106)
February 2016	4,351,540	1,304	–	2,203	(899)
April 2016	261,600	78	–	149	(71)
May 2016	102,180	28	–	45	(17)
June 2016	2,500	1	–	1	–
July 2016	44,660	12	–	17	(5)
August 2016	898,000	300	–	477	(177)
September 2016	1,505,010	446	–	684	(238)
October 2016	171,260	47	–	55	(8)
November 2016	910,200	467	–	630	(163)
December 2016	200,810	54	–	88	(34)
For the year ended 31 December 2016	8,912,350	2,886	–	4,604	(1,718)
January 2017	**489,630**	**135**	**–**	**215**	**(80)**
February 2017	**46,910**	**13**	**–**	**19**	**(6)**
March 2017	**351,570**	**104**	**–**	**137**	**(33)**
April 2017	**633,800**	**185**	**–**	**248**	**(63)**
May 2017	**1,190,000**	**481**	**–**	**637**	**(156)**
June 2017	**2,199,000**	**718**	**–**	**1,200**	**(482)**
July 2017	**51,000**	**18**	**–**	**23**	**(5)**
August 2017	**1,638,000**	**648**	**–**	**1,037**	**(389)**
September 2017	**3,625,730**	**1,262**	**–**	**2,047**	**(785)**
October 2017	**4,192,000**	**1,421**	**–**	**2,422**	**(1,001)**
November 2017	**685,500**	**235**	**–**	**311**	**(76)**
December 2017	**883,000**	**258**	**–**	**540**	**(282)**
For the year ended 31 December 2017	**15,986,140**	**5,478**	**–**	**8,836**	**(3,358)**

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iv) Shares issued under the settlement of other current liabilities

Pursuant to the contractual agreements dated 25 June 2012 (the "Agreements") relating to the acquisition of Dongguan Kewei, the Group granted 4,000,000 share options (see note 30(a)(i)) to a seller of Dongguan Kewei (the "Seller").

Under the Agreements, the Seller is obligated to exercise the share options in its entirety with a total exercise payment of RMB10,595,000 (the "Exercise Payment", equivalent to US$1,671,000) and to sell all the shares obtained from the exercise of these share options within 22 trading days commencing from the fourth anniversary of the grant date through an agent jointly designated by the Group and the Seller (the "Mandatory Share Sale"). If the proceeds from the Mandatory Share Sale less the Exercise Payment (the "Option Realisable Value") be lower than RMB48,915,600 (the "Specified Amount", equivalent to US$7,305,000), the Group should make an additional payment to the Seller in cash, being the difference between the Option Realisable Value and the Specified Amount and such payment will be no higher than the Specified Amount. If the Option Realisable Value exceed the Specified Amount, the Seller should pay such excess amounts to the Group in cash.

In July 2016, the Seller sold all shares which obtained from the exercise of the entire share options. The actual Option Realisable Value was approximately RMB2,022,000 (equivalent to US$302,000). The Group subsequently paid US$7,006,000, being the difference between the Option Realisable Value and the Specified Amount, to the Seller. The amount of US$1,973,000, being the total of the Exercise Payment and the actual Option Realisable Value was credited to share premium.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 1(y).

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (continued)

(iii) Capital reserve

The capital reserve primarily comprises the following:

- the fair value of the actual or estimated number of unexercised share options granted to executives, employees and external consultants of the Group in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii);
- the consideration paid for the purchase of the Company's shares net of the fair value of shares granted to the Group's executives under the share award scheme (see note 26(b));
- the amount allocated to the unexercised equity component of convertible bonds (see note 1(p)(i)).
- gain/loss on acquisition or dilution of interests in subsidiaries where the Group's interest in a subsidiary is increased/decreased without losing control (see note 1(d)); and
- changes in amortised costs of share repurchase obligations (see notes 21 and 28(c)).

(iv) Statutory general reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained profits to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

(e) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was US$463,700,000 (2016: US$451,344,000).

(f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines "capital" as including all components of equity, obligations under finance leases, convertible bonds, non-current interest-bearing borrowings (including the current portion) and other non-current liabilities, less unaccrued proposed dividends based on the number of ordinary shares as at 31 December 2017. On this basis, the amount of capital employed at 31 December 2017 was US$687,859,000 (2016: US$571,824,000).

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management (continued)

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings and convertible bonds based on the Group's financial ratios relating to capital requirements. The Group complied with the imposed loan covenants for the year ended 31 December 2017. Except for the above, neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

28 DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES

(a) 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 totalling 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. As at 31 December 2016, only the Capital Increase Agreement was completed and the Group held approximately 83.37% equity interests in MP Endo.

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 Jiatai"), 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 Jiatai.

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 Tianjin"), 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 Tianjin.

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 Tianjin and Fufu have the same ultimate controller.

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

28 DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES (CONTINUED)

(a) MP Endo (continued)

During the year ended 31 December 2017, the Previous Equity Transfer Agreements, the CICC Equity Transfer Agreement and the Fufu Equity Transfer Agreement were completed. As at 31 December 2017, the Group's effective equity interests in MP Endo was approximately 61.79% and MP Endo remains as a subsidiary of the Company. As the disposal of partial equity interests of MP Endo 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$48,637,000 being the difference between the total consideration of RMB399,300,000 (equivalent to US$59,548,000) 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.

The abovementioned agreements all contain compensation mechanism. If the actual net profit of MP Endo for the year ended 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 the management accounts of MP Endo, the 2017 ANP target is expected to be achieved or exceeded and no liability for the compensation obligation was provided as at 31 December 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 year ended 31 December 2017, the Group entered into several agreements with a third party investor (the "Investor") and a partnership firm (the "Partnership Firm"), whose partners consisted of employees of the Group and the Investor, with contemplation to dispose an aggregate 60% equity interests in MP Lifesciences Shanghai by way of (i) transfer of partial equity interests in MP Lifesciences Shanghai held by the Group to the Partnership Firm and the Investor (the "Transfer"); and (ii) capital increase in MP Lifesciences Shanghai totalling RMB41,110,000 by the Partnership Firm and the Investor (the "Capital Increase"). The Transfer and the Capital Increase are determined to be linked.

In 2017, the Transfer and the Capital Increase were completed which resulted to a reduction in the Group's equity interest in MP Lifesciences Shanghai to 40%. 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 the votes. Management determined that the Group lost control over MP Lifesciences Shanghai.

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 year ended 31 December 2017 and the Group's remaining interests in MP Lifesciences Shanghai recognised as interest in an associate (see note 14). 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.

28 DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES (CONTINUED)

(c) MP CardioFlow

As at 31 December 2016, the Group held approximately 77.27% equity interest in MP CardioFlow. On 22 August 2017 and 20 October 2017, the original shareholders of MP CardioFlow entered into the share transfer and capital increase agreements and the shareholders' agreements (collectively the "CardioFlow Agreements"), with certain third party investors (the "CardioFlow Investors"). Pursuant to the CardioFlow Agreements, the CardioFlow Investors conditionally agreed to subscribe for certain interests to be newly issued in the enlarged share capital of MP CardioFlow at an aggregated cash consideration of RMB277,262,683 and acquire certain equity interests from the original shareholders of MP CardioFlow other than the Group. The transactions will be carried out through following three steps.

Step I one of the original shareholders of MP CardioFlow ("Chenxue Investment") agreed to transferred 4.49% equity interests in MP CardioFlow held by it to the CardioFlow Investors at a cash consideration of RMB59,090,910. Chenxue Investment is a partnership firm whose partners consisted of employees of the Group. The CardioFlow Investors also agreed to subscribe in cash for 12.22% newly issued in the enlarged share capital of MP CardioFlow at a consideration of RMB180,909,090;

Step II another original shareholder of MP CardioFlow ("Jianyi Xinhe") agreed to transferred 7.98% equity interests in the enlarged share capital of MP CardioFlow held by it to the CardioFlow Investors at a cash consideration of RMB143,646,407; and

Step III The CardioFlow Investors agreed to subscribe in cash for 4.54% newly issued in the enlarged share capital of MP CardioFlow at a consideration of RMB96,353,593.

The CardioFlow Investors are entitled to make payments for each step upon the completion of the terms and conditions for the respective steps as set out in the CardioFlow Agreements. Above issuances of new share capital under Step I and Step III are deemed as partial disposal of equity interest in MP CardioFlow by the Group, while the transfers of equity interest by Chenxue Investment and Jianyi Xinhe to the CardioFlow Investors are not transactions of the Group. Upon the completion of the CardioFlow Agreements, the Group's effective interests in MP CardioFlow will be diluted to approximately 64.7151%.

In connection with the deemed sale of shares, the Group also wrote put options (the "Put Options") to the CardioFlow Investors. The Put Options give the CardioFlow Investors the rights to require the Group to re-acquire the redeemable shares by them under certain conditions at the consideration specified under the CardioFlow Agreements. These conditions include (i) MP CardioFlow fails to be listed on a stock exchange within six years after the completion of Step I; (ii) MP CardioFlow fails to obtain the required approval from regulatory for one of its products before 31 December 2019 and (iii) the four to six years after the completion of Step I. The Put Options are recognised as an obligation of the Group to repurchase own equity and are presented as other payables in the consolidated statement of financial position (see note 21).

As at 31 December 2017, only Step I was completed. The Group held approximately 67.83% equity interests in MP CardioFlow.

The amount of US$33,529,000, being the difference between (A) the sum of (i) carrying amount of the Put Options recognised as part of the transaction of; and (ii) the share of net assets of MP CardioFlow disposed of, and (B) the consideration for the deemed disposal of the partial interests in MP CardioFlow, has been debited to capital reserves within equity.

No gain or loss on deemed partial disposal was recognised in the consolidated statement of profit or loss since the Company retained control over MP CardioFlow before and after the transaction. Such disposal was treated as a transaction within the shareholders of MP CardioFlow in their capacity as equity holders.

Further details of the CardioFlow Agreements were set out in the Company's announcements dated 22 August 2017, 4 September 2017, 20 October 2017, 27 October 2017 and 8 February 2018.

28 DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES (CONTINUED)

(d) Other subsidiaries

Dongguan Kewei and Jiaxing Urocare were both wholly-owned subsidiaries of the Group. In 2017, the Group was deemed to transfer 38.46% equity interests in Dongguan Kewei to a partnership firm (see note 26(c)) and the Investor by way of capital increase totalling RMB50,000,000 (equivalents to US$7,652,000). The Group was also deemed to transfer 40% equity interests in Jiaxing Urocare to another partnership firm (see note 26(c)) by way of capital increase totalling RMB13,000,000 (equivalents to US$1,990,000).

The Group remained control over Dongguan Kewei and Jiaxing Urocare after the deemed disposals. Accordingly, the amount of US$269,000 being the difference between the total considerations and the carrying amount of net assets in proportion of the disposed equity interests in these subsidiaries as at the date of disposal, was debited to capital reserve of the Group.

Pursuant to the agreements, the capital increase are settled by instalments. As at 31 December 2017, the unpaid share capital totalling US$9,642,000 were expected to be received within one year and recorded as trade and other receivables in consolidated statement of financial position (see note 19).

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay deposits upfront and the remaining trade receivables are mainly due within 30 to 360 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6% (2016: 7%) and 18% (2016: 19%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	**71,792**	**27,640**	**2,520**	**–**	**101,952**	**97,054**
Convertible bonds	**5,759**	**103,413**	**66,876**	**–**	**176,048**	**154,421**
Trade and other payables	**122,306**	**1,167**	**414**	**92,030**	**215,917**	**177,085**
	199,857	**132,220**	**69,810**	**92,030**	**493,917**	**428,560**

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	112,088	19,448	23,195	–	154,731	148,541
Convertible bonds	4,907	5,759	170,289	–	180,955	147,769
Trade and other payables	96,394	701	1,095	869	99,059	99,051
	213,389	25,908	194,579	869	434,745	395,361

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings and convertible bonds. Borrowings issued at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings, cash at banks and deposits with banks at the end of the reporting period:

	2017		2016	
	Effective interest rate	**Amount US$'000**	Effective interest rate	Amount US$'000
Net fixed rate instruments:				
Deposits with banks	**0.30%-2.90%**	**538**	0.30%-1.35%	983
Interest-bearing borrowings	**–**	**–**	4.35%	(18,020)
Other payables	**2.21%-9.29%**	**(52,306)**	6.93%-8.26%	(104)
		(51,768)		(17,141)
Net variable rate instruments:				
Cash at banks	**0%-2.00%**	**159,793**	0%-1.10%	122,711
Deposits with banks	**0.30%-1.75%**	**658**	0.30%-1.71%	668
Investment in convertible bonds	**24.51%**	**5,365**	16.78%	6,432
Interest-bearing borrowings	**2.49%-7.66%**	**(97,054)**	1.20%-7.66%	(130,521)
Convertible bonds	**5.24%-9.52%**	**(154,421)**	5.24%-9.52%	(147,769)
		(85,659)		(148,479)
		(137,427)		(165,620)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the year and retained profits by approximately US$1,032,116 and US$1,032,116, respectively (2016: decreased/increased the Group's profit for the year and retained profits by approximately US$955,071 and US$970,976, respectively).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2016.

(d) Currency risk

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables, payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and US$ and (ii) intra-group borrowings that are denominated in RMB, between the PRC subsidiaries, whose functional currency is RMB and overseas subsidiaries, whose functional currency is Hong Kong dollars or US$.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in US$)					
	2017			2016		
	Euros	**US$**	**RMB**	Euros	US$	RMB
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Trade and other receivables	**3,722**	**2,714**	**746**	3,729	3,929	–
Cash and cash equivalents	**650**	**3,011**	**215**	325	2,971	876
Trade and other payables	**(1,246)**	**(237)**	**–**	(987)	(338)	(16)
Amounts due (to)/from group companies	**(5,274)**	**21,189**	**(118,762)**	(7,265)	22,874	(113,399)
Amounts due from/(to) related parties	**3,571**	**790**	**(367)**	–	1,329	(173)
Net exposure arising from recognised assets and liabilities	**1,423**	**27,467**	**(118,168)**	(4,198)	30,765	(112,712)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits US$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits US$'000
RMB (against US$)	**3%**	**(4,303)**	3%	(4,245)
	(3)%	**4,341**	(3)%	4,289
Euros (against US$)	**3%**	**226**	3%	91
	(3)%	**(226)**	(3)%	(91)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into US$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of the entities into the Group's presentation currency. The analysis has been performed on the same basis for 2016.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged an external valuer to perform valuations for the financial instruments, including the conversion option embedded in the Otsuka Loans and the conversion option of the Lombard Convertible Bonds. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at each interim and annual reporting date, and is reviewed and approved by the Group's management.

	Note	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
			Level 1	Level 2	Level 3
		US$'000	US$'000	US$'000	US$'000
Recurring fair value measurement					
Assets:					
Derivative financial assets:					
– Conversion option of the Lombard Convertible Bonds	*16*	314	–	–	314

	Note	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
			Level 1	Level 2	Level 3
		US$'000	US$'000	US$'000	US$'000
Recurring fair value measurement					
Assets:					
Derivative financial assets:					
– Conversion option of the Lombard Convertible Bonds	*16*	3,499	–	–	3,499
Liabilities:					
Derivative financial liabilities:					
– Conversion option of the Otsuka Loans	*22(b)*	23	–	–	23

(Expressed in United States dollars unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

During the years ended 31 December 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.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Volatility ratio
Conversion option of the Lombard Convertible Bonds	Binomial lattice model	Expected volatility	89.03%

The fair value of conversion options embedded in the Lombard Convertible Bonds are determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 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/(loss) by US$50,610 and US$48,183, respectively (2016: US$145,193 and US$237,302, respectively). The loss arising from the re-measurement of the conversion options of the Lombard Convertible Bonds is presented in "Other net (loss)/income" in the consolidated statement of profit or loss.

The movement during the year in the balances of the Level 3 fair value measurements is disclosed in note 16.

(ii) Fair value of financial assets and liabilities carried at other than fair value

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

30 COMMITMENTS

(a) Capital commitments in respect of property, plant and equipment and intangible assets outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017 US$'000	2016 US$'000
Contracted for	**34,746**	25,424
Authorised but not contracted for	**71,461**	64,992
	106,207	90,416

In addition to the above, the Group will also acquire certain assets of the cardiac rhythm management business (the "CRM Business") from LivaNova PLC ("LivaNova"), details of which have been disclosed in note 33(a).

(b) At 31 December 2017, the total future minimum lease payments in respect of property, plant and equipment under non-cancellable operating leases are payable as follows:

	2017 US$'000	2016 US$'000
Within 1 year	**6,954**	5,957
After 1 year but within 5 years	**2,424**	2,280
After 5 years	**1,086**	–
At 31 December	**10,464**	8,237

The Group leases a number of properties and plants under operating leases. The leases typically run for an initial period of one to ten years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

In December 2017, MP Shanghai entered into an agreement (the "Lease Agreement") with Shanghai Weichuang Investment Management Co., Ltd. (the "Lessor"). The legal representative and the chairman of the board of the directors of the Lessor, is a director of the Company. The Lessor is a related party of the Company.

Pursuant to the Lease Agreement, the Lessor agreed to lease out certain buildings to MP Shanghai for 5 years starting from 1 May 2020; and MP Shanghai agreed to pay a security deposit totalling RMB112.8 million (equivalent to approximately US$17.3 million) to the Lessor before 1 June 2018. The rental deposits and future lease charges could be firstly deducted from the security deposit. MP Shanghai is also liable for a compensation in the amount of 20% of the security deposit, if MP Shanghai cancels the lease without obtaining consent from the Lessor. In January 2018, MP Shanghai paid partial security deposit of RMB72.5 million to the Lessor.

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid individuals as disclosed in note 8, is as follows:

	2017	2016
	US$'000	US$'000
Salaries and other benefits	**2,468**	2,176
Discretionary bonuses	**1,458**	1,317
Retirement scheme contributions	**57**	54
Equity-settled share-based payment expenses	**3,017**	1,784
Cash-settled share-based payment expenses	**775**	247
	7,775	5,578

Total remuneration was included in staff costs (note 5(b)).

(b) Financing arrangement

(i) As disclosed in note 22(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 2017 amounted to US$30,000 and US$23,000, respectively (2016: US$1,324,000 and US$347,000, respectively).

(ii) During 2017, the Group provided loans of US$8,320,000 to MicroPort Sorin CRM, and MicroPort Sorin CRM repaid US$1,486,000 to the Group. Amount due from MicroPort Sorin CRM is unsecured and interest-free.

(iii) As mentioned in note 28(b), after the disposal of partial equity interests in MP Lifesciences Shanghai, MP Lifesciences Shanghai became an associate of the Group. As at 31 December 2017, amounts due from MP Lifesciences Shanghai was US$3,256,000 which bear an interest at 4.75% p.a. and was presented within interest in associates.

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sales to related parties

For the year ended 31 December 2017 and 2016, the Group entered into sales transactions with the following related parties:

Name of party	Relationship
JIMRO Co., Ltd. ("JIMRO")	Subsidiary of Otsuka Holdings Co., Ltd. ("Otsuka Holdings"), the controlling party of substantial shareholder of the Company
Thai Otsuka Pharmaceutical Co., Ltd. ("Thai Otsuka")	Subsidiary of Otsuka Holdings
Otsuka (Philippines) Pharmaceutical, Inc. ("Otsuka Philippines")	Subsidiary of Otsuka Holdings
P.T. Otsuka Indonesia ("Otsuka Indonesia")	Subsidiary of Otsuka Holdings
Otsuka Pakistan Ltd. ("Otsuka Pakistan")	Subsidiary of Otsuka Holdings

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

	2017 US$'000	2016 US$'000
Sale of goods to:		
JIMRO	**–**	130
Thai Otsuka	**1,064**	1,205
Otsuka Philippines	**820**	1,385
Otsuka Indonesia	**673**	406
Otsuka Pakistan	**1,065**	904
	3,622	4,030

	2017 US$'000	2016 US$'000
Trade debtors from:		
Thai Otsuka	**169**	675
Otsuka Philippines	**230**	187
Otsuka Indonesia	**206**	112
Otsuka Pakistan	**232**	400
MicroPort Sorin CRM	**–**	69
	837	1,443

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

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Other transactions with related parties

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

Name of party	Relationship
Maxwell Maxcare Science Foundation Limited ("Maxwell Maxcare")	Controlling party of a substantial shareholder of the Company
ZJ Sci-Tech Venture	Subsidiary of substantial shareholder of the Company
Lead Power Global Limited ("Lead Power")	Shareholders are the management members of the Company
MicroPort Sorin CRM	Joint venture of the Group

	2017 **US$'000**	2016 US$'000
Purchase of goods from MicroPort Sorin CRM	**1,963**	1,302
Service fee charged by Maxwell Maxcare	**1,075**	229
Disposal of partial equity interests in MicroPort NeuroTech Corp. to Lead Power	**–**	1,000
Disposal of partial equity interests in MicroPort NeuroTech Corp. to Maxwell Maxcare	**–**	1,000
Payment on behalf of Maxwell Maxcare	**378**	–
Disposal of partial equity interests in MP Endo to ZJ Sci-Tech Venture (note 28(a))	**5,291**	–

(e) Applicability of the Listing Rules relating to connected transactions

Except the related party transactions in respect of MicroPort Sorin CRM and Lead Power, the other related party transactions in respect of the above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 US$'000	2016 US$'000
Non-current assets			
Investments in subsidiaries		**782,248**	765,207
Interest in an associate		**2,764**	–
Available-for-sale securities		**2,000**	–
		787,012	765,207
Current assets			
Other receivables		**46,687**	40,647
Cash and cash equivalents		**37,632**	53,288
		84,319	93,935
Current liabilities			
Amounts due to group companies		**182,501**	127,785
Other payables		**4,972**	1,593
Interest-bearing borrowings		**18,000**	40,355
Derivative financial liabilities		**–**	23
		205,473	169,756
Net current liabilities		**(121,154)**	(75,821)
Total assets less current liabilities		**665,858**	689,386
Non-current liabilities			
Interest-bearing borrowings		**21,719**	40,000
Convertible bonds		**154,421**	147,769
Other payables		**–**	20,188
		176,140	207,957
NET ASSETS		**489,718**	481,429
CAPITAL AND RESERVES	*27(a)*		
Share capital		**14**	14
Reserves		**489,704**	481,415
TOTAL EQUITY		**489,718**	481,429

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

(b) After the period end, the directors of the Company proposed a final dividend for the year ended 31 December 2017 of HK2.5 cents per ordinary share, which has not been recognised as a liability at 31 December 2017.

(Expressed in United States dollars unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) Interpretation 23, Uncertainty over income tax treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the assessment completed to date is based on the information currently available to the Group, the actual impacts upon the initial adoption of the standards may differ, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 9, Financial instruments (continued)

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has accessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities currently measured at cost less impairment losses as these investments do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured. The Group plan to classify them as FVTPL and recognise any fair value changes in respect of these investments in profit or loss as they arise. This change in policy will increase volatility in profit or loss. As at 31 December 2017, directors of the Company are in the view that the fair values of these available-for-sale equity securities did not have a material difference with the carrying amounts of them.

With respect to the Group's investment in convertible bonds, currently the conversion option and the debt components of the convertible bonds are measured separately as financial assets at fair value through profit or loss and carried at amortised cost, respectively. The Group will reclassify the whole investment in convertible bonds as FVTPL and recognise any fair value changes in respect of the investment in convertible bonds in profit or loss as they arise. Based on the fair value assessments undertaken to date, the Group does not expect material impact on the consolidated financial statements.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 9, Financial instruments (continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(x). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 15, Revenue from contracts with customers (continued)

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group arrangements with its customers, and the length of time between the payment date and the completion date of legal assignment (i.e. the date when the customers obtain control of the goods) is usually a few months.

The Group has assessed that this component in the Group's advance payment schemes is not likely to be significant to the contract.

(c) Sales with a right of return

Currently when the customers are allowed to return or exchange the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for sales of goods at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 16, Leases

As disclosed in note 1(l), currently the Group classifies leases into operating leases and accounts for the lease arrangements according to the nature of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 30(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to US$10,464,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

MicroPort Scientific Corporation