MicroPort Scientific Corporation

微創醫療科學有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

	Financial year ended		
	2015	2014	Change
	US$'000	*US$'000*	*%*
Revenue	**375,844**	355,284	5.8
Gross profit	**252,509**	243,285	3.8
Loss for the year	**(11,379)**	(59,571)	(80.9)
Loss attributable to equity shareholders of the Company	**(12,086)**	(59,461)	(79.7)
Loss per share –			
Basic (in cents)	**(0.85)**	(4.22)	(79.9)
Diluted (in cents)	**(0.85)**	(4.27)	(80.1)

For the year ended 31 December 2015, MicroPort Scientific Corporation (the "Company", "MicroPort") and its subsidiaries (collectively the "Group") recorded consolidated revenue of US$375.8 million, representing a growth of 9.6% in local currency and a growth of 5.8% in US$ compared to 2014. The remarkable result was achieved through sales growth across all business segments in local currency: cardiovascular devices segment performed strongly with revenue up by 20.4% in local currency, orthopedics devices segment made a successful turnaround with a growth of 2.6% in local currency after years of decline prior to MicroPort's acquisition, and the remaining segments also had success in achieving growth rates ranging from 6.3% to 27.2% in local currency, with double digit increase in endovascular devices, neurovascular devices and electrophysiology ("EP") devices business.

The Company recorded a net loss of US$11.4 million for the year ended 31 December 2015, compared with a net loss of US$59.6 million for the year ended 31 December 2014.The significant improvement resulted primarily from increase in gross profit by US$9.2 million driven by sales growth, decrease in operating expenses by $5.9m through improved operating efficiencies, decrease in post-acquisition integration expenses by US$9.4 million, and decrease in goodwill impairment by US$22.3 million.

* *For identification purpose only*

The board (the "**Board**") of directors (the "**Directors**") of the Company hereby announces the consolidated audited annual results of the Group for the year ended 31 December 2015 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015
(Expressed in United States dollars)

	Note	**2015**	2014
		US$'000	*US$'000*
Revenue	*4*	**375,844**	355,284
Cost of sales		**(123,335)**	(111,999)
Gross profit		**252,509**	243,285
Other revenue	*5*	**12,221**	10,080
Other net income	*5*	**3,304**	1,945
Research and development costs		**(60,354)**	(54,564)
Distribution costs		**(127,739)**	(133,629)
Administrative expenses		**(65,031)**	(70,773)
Other operating costs		**(4,886)**	(35,710)
Profit/(loss) from operations		**10,024**	(39,366)
Finance costs	*6(a)*	**(14,778)**	(12,956)
Share of losses of a joint venture		**(3,788)**	(1,192)
Loss before taxation	*6*	**(8,542)**	(53,514)
Income tax	*7(a)*	**(2,837)**	(6,057)
Loss for the year		**(11,379)**	(59,571)
Attributable to:			
Equity shareholders of the Company		**(12,086)**	(59,461)
Non-controlling interests		**707**	(110)
Loss for the year		**(11,379)**	(59,571)
Loss per share	*9*		
Basic (in cents)		**(0.85)**	(4.22)
Diluted (in cents)		**(0.85)**	(4.27)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015
(Expressed in United States dollars)

	2015	2014
	US$'000	*US$'000*
Loss for the year	**(11,379)**	(59,571)
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation to presentation currency	**(25,947)**	(6,165)
Other comprehensive income for the year	**(25,947)**	(6,165)
Total comprehensive income for the year	**(37,326)**	(65,736)
Attributable to:		
Equity shareholders of the Company	**(37,920)**	(65,630)
Non-controlling interests	**594**	(106)
Total comprehensive income for the year	**(37,326)**	(65,736)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	**31 December 2015**	31 December 2014
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**253,792**	267,780
Land use rights		**17,411**	18,886
		271,203	286,666
Intangible assets		**60,217**	60,506
Prepayments for property, plant and equipment		**2,711**	1,678
Goodwill	*10*	**55,463**	56,529
Deferred tax assets		**3,711**	4,124
Interest in a joint venture		**4,759**	3,866
Time deposits		**–**	11,440
Other non-current assets		**4,339**	6,813
		402,403	431,622
Current assets			
Inventories		**101,840**	109,901
Trade and other receivables	*11*	**126,957**	121,930
Investments and time deposits		**2,976**	60,679
Cash and cash equivalents		**99,467**	215,602
		331,240	508,112
Current liabilities			
Trade and other payables	*12*	**99,418**	108,649
Interest-bearing borrowings	*13*	**55,086**	215,897
Income tax payable		**1,226**	1,016
Deferred income		**5**	10
Derivative financial liabilities	*13(b)*	**397**	592
Obligations under finance leases		**1,209**	1,868
Other current liabilities		**7,260**	–
		164,601	328,032
Net current assets		**166,639**	180,080
Total assets less current liabilities		**569,042**	611,702

	Note	31 December 2015	31 December 2014
		US$'000	*US$'000*
Non-current liabilities			
Interest-bearing borrowings	*13*	**129,374**	132,817
Convertible bonds		**94,815**	91,573
Obligations under finance leases		**33**	1,894
Deferred income		**22,086**	28,989
Trade and other payables	*12*	**1,541**	1,793
Other non-current liabilities		**–**	7,335
Deferred tax liabilities		**3,365**	3,558
		251,214	267,959
NET ASSETS		**317,828**	343,743
CAPITAL AND RESERVES			
Share capital	*8(b)*	**14**	14
Reserves		**312,505**	342,239
Total equity attributable to equity shareholders of the Company		**312,519**	342,253
Non-controlling interests		**5,309**	1,490
TOTAL EQUITY		**317,828**	343,743

1 Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3(ii) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments that are measured at fair value.

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

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

3 Changes in accounting policies

(i) Change in cost formula of inventories

During the year ended 31 December 2015, the Group changed its accounting policy for the cost formula of inventories, from weighted average cost formula to first-in, first-out cost formula ("FIFO") as we believe the FIFO method better reflects the current value of inventories as a result of the Group's continuous effort to optimise the procurement and product process in connection with its integration of the OrthoRecon Business and the characteristics of the frequent upgrade of the orthopedics products. The adoption of the new policy does not have material impact on the financial information for both current and prior periods. Therefore, the new accounting policy is applied prospectively from 1 January 2015 and comparatives have not been restated.

(ii) Application of new and revised HKFRSs

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- *Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

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

4 Revenne and segment reporting

(a) Revenue

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

Revenue by major category of products is as follows:

	2015	2014
	US$'000	*US$'000*
Orthopedics devices	**205,237**	210,371
Cardiovascular devices		
– Drug eluting stents	**120,428**	101,947
– Others	**12,125**	9,925
Endovascular devices		
– TAA/AAA stent grafts	**12,370**	11,010
– Others	**3,780**	3,090
Electrophysiology devices	**5,813**	4,807
Neurovascular devices	**7,851**	6,285
Surgical devices	**6,102**	5,802
Diabetes and endocrinal devices	**2,138**	2,047
	375,844	355,284

For the year ended 31 December 2015, no customer with whom transactions have exceeded 10% of the Group's revenue.

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

(b) Segment reporting

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

- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.
- Cardiovascular devices business: sales, manufacture, research and development of cardiovascular devices, such as drug eluting stents.
- Endovascular devices business: sales, manufacture, research and development of endovascular devices.
- Electrophysiology devices business: sales, manufacture, research and development of electrophysiology devices.
- Neurovascular devices business: sales, manufacture, research and development of neurovascular devices.
- Surgical management business: sales, manufacture, research and development of surgical devices.
- Diabetes care and endocrinal management business: sales, manufacture, research and development of devices related to diabetes mellitus.

(i) Segment results, assets and liabilities

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

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

	2014							
	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	210,371	111,872	14,100	4,807	6,285	5,802	2,047	355,284
Reportable segment net profit/(loss)	(65,225)	25,052	2,957	(1,985)	1,456	(14,621)	(1,174)	(53,540)
Depreciation and amortisation for the year	28,630	7,834	360	176	342	712	170	38,224
Income tax	423	4,861	550	–	271	(48)	–	6,057
Write-down of inventories	591	559	–	–	–	–	1,218	2,368
Impairment losses of								
– Intangible assets	1,050	–	–	–	–	–	–	1,050
– Goodwill	6,451	5,125	–	–	–	11,719	–	23,295
Reportable segment assets	398,739	417,341	13,992	12,625	7,537	27,467	5,873	883,574
Additions to non-current segment assets during the year	201,305	54,649	474	2,081	1,672	954	42	261,177
Reportable segment liabilities	135,895	139,996	3,157	7,187	2,418	9,770	6,052	304,475

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

	2015	2014
	US$'000	*US$'000*
Profit or loss		
Reportable segment net loss	**(4,051)**	(53,540)
Equity-settled share-based payment expenses	**(2,448)**	(1,139)
Unallocated exchange gain	**3,444**	16
Unallocated income and expenses	**(8,324)**	(4,908)
Consolidated loss for the year	**(11,379)**	(59,571)
Assets		
Reportable segment assets	**851,639**	883,574
Elimination of inter-segment receivables	**(127,583)**	(93,846)
	724,056	789,728
Unallocated corporate assets:		
– Cash and cash equivalents	**8,801**	148,128
– Others	**786**	1,878
	9,587	150,006
Consolidated total assets	**733,643**	939,734
Liabilities		
Reportable segment liabilities	**302,926**	304,475
Elimination of inter-segment payables	**(127,583)**	(93,846)
Deferred tax liabilities	**1,981**	2,102
Convertible bonds	**94,815**	91,573
Derivative financial liabilities *(note 13(b))*	**397**	592
Interest-bearing borrowings	**134,196**	282,463
Unallocated corporate liabilities	**9,083**	8,632
Consolidated total liabilities	**415,815**	595,991

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, land use right, intangible assets, goodwill and interest in 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 interest in a joint venture.

Revenue from external customers

	2015	2014
	US$'000	*US$'000*
The PRC (country of domicile)	**170,462**	143,084
North America	**91,571**	89,776
Europe	**59,956**	63,666
Asia	**37,081**	45,923
South America	**11,666**	10,525
Others	**5,108**	2,310
	205,382	212,200
	375,844	355,284

Specified non-current assets

	2015	2014
	US$'000	*US$'000*
The PRC (country of domicile)	**248,052**	242,348
North America	**131,145**	150,851
Europe	**5,708**	5,816
Asia	**6,401**	8,220
South America	**336**	30
Others	**–**	302
	143,590	165,219
	391,642	407,567

5 Other revenue and net income

	2015	2014
	US$'000	*US$'000*
Other revenue		
Government grants *(note)*	**11,218**	4,836
Interest income on bank deposits	**1,003**	4,536
Others	**–**	708
	12,221	10,080

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$2,558,000 (2014: US$3,931,000) to compensate the Group for research expenses already incurred and conditional grants of US$8,660,000 (2014: US$905,000) transferred from deferred income as the conditions attaching to the grant was complied with during the year ended 31 December 2015.

	2015	2014
	US$'000	*US$'000*
Other net income		
Net loss on disposal of property, plant and equipment	**(718)**	(1,493)
Net foreign exchange gain/(loss)	**4,254**	(1,504)
Changes in fair value of embedded financial derivatives *(note 13(b))*	**195**	5,101
Others	**(427)**	(159)
	3,304	1,945

6 Loss before taxation

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

	2015	2014
	US$'000	*US$'000*
(a) Finance costs		
Interest on the Otsuka Loans *(note 13(b))*	**2,438**	5,333
Interest on the convertible bonds	**4,664**	2,998
Interest on other interest-bearing borrowings	**6,003**	4,425
Finance charges on obligations under finance leases	**64**	55
Others	**1,609**	690
Total interest expense on financial liabilities not at fair value through profit or loss	**14,778**	13,501
Less: interest expense capitalised into property, plant and equipment *	**–**	(545)
	14,778	12,956

* During 2014, the borrowing costs have been capitalised at a rate of 6.4% per annum.

	2015	2014
	US$'000	*US$'000*
(b) Staff costs		
Contributions to defined contribution retirement plan	**10,264**	9,052
Equity-settled share-based payment expenses	**4,652**	3,336
Cash-settled share-based payment expenses	**1,224**	1,245
Salaries, wages and other benefits	**122,951**	130,749
	139,091	144,382

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.

	2015	2014
	US$'000	*US$'000*
(c) Other items		
Amortisation[#]		
– land use rights	**402**	408
– intangible assets	**5,130**	4,885
	5,532	5,293
Depreciation[#]	**32,938**	32,988
Less: amount capitalised as development costs	**(867)**	(646)
	32,071	32,342
Impairment losses		
– trade and other receivables *(note 11(b))*	**635**	1,746
– intangible assets	**282**	1,050
– goodwill *(note 10)*	**984**	23,295
	1,901	26,091
Operating lease charges: minimum lease payment	**7,839**	5,721
Auditors' remuneration		
– audit services	**1,194**	1,206
– non-audit services	**301**	2,072
	1,495	3,278
Research and development costs (other than amortisation costs of intangible assets)	**53,660**	53,055
Write-off of intangible assets	**4,808**	–
Cost of inventories[#]	**130,540**	122,027

[#] Cost of inventories includes US$43,536,000 (2014: US$50,690,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

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

Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$27,771,000 (2014: US$27,862,000), depreciation of the relevant property, plant and equipment of US$3,816,000 (2014: US$2,319,000) and cost of inventories of US$6,305,000 (2014: US$8,556,000), which are included in the total staff cost as disclosed in note 6(b), depreciation as disclosed in note 6(c) and cost of inventories, respectively.

7 Income tax in the consolidated statement of profit or loss

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

	2015	2014
	US$'000	*US$'000*
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**1,279**	4,755
Over provision in respect of prior years	**(366)**	(112)
	913	4,643
Current tax – other jurisdictions		
Provision for the year	**1,574**	954
Under provision in respect of prior years	**80**	–
	1,654	954
	2,567	5,597
Deferred tax		
Origination and reversal of temporary differences	**270**	460
	2,837	6,057

(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% (2014: 16.5%) of the estimated assessable profits.

(iii) PRC CIT

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

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

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

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

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

As at 31 December 2015, based on management's assessment of the probability on the future taxable profit subsequent to the date of the reporting period, no deferred tax assets had been recognised for tax losses and deductible temporary differences of certain loss-making entities.

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

	2015	2014
	US$'000	*US$'000*
Loss before taxation	**(8,542)**	(53,514)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the countries concerned	**(3,350)**	(12,699)
Effect of PRC preferential tax rate	**(262)**	(4,246)
Effect of non-deductible equity-settled share-based payment expenses	**612**	285
Effect of other non-deductible expenses	**2,307**	1,140
Effect of non-taxable revenue	**(189)**	(261)
Effect of deemed taxable income *(note)*	**231**	292
Effect of super-deduction on research and development expenses	**(2,628)**	(1,874)
Effect of tax losses not recognised	**15,038**	23,479
Effect of deductible loss arising from intra-group restructuring	**(8,821)**	–
Over provision in respect of prior years	**(286)**	(59)
Withholding tax on profit distributions	**185**	–
Actual tax expenses	**2,837**	6,057

Note: The amount represents the CIT payable in respect of the deemed sales of the free goods offered to the Group's customers for marketing and promotional use.

8 Dividends and share capital

(a) Dividends

The directors of the Company did not propose the payment of any dividend for the year ended 31 December 2015 (2014: Nil).

(b) Share capital

(i) Ordinary shares

	2015		2014	
	No. of shares ***'000***	**Amounts** ***US$'000***	No. of shares *'000*	Amounts *US$'000*
Authorised:				
Ordinary shares of US$0.00001 each	**4,987,702**	**50**	4,987,702	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,422,160**	**14**	1,408,995	14
Shares issued under share option plans	**4,409**	**–**	13,165	–
At 31 December	**1,426,569**	**14**	1,422,160	14

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase of own shares

During the year, the Company purchased its own ordinary shares on The Stock Exchange of Hong Kong Limited under the share award scheme as follows:

Month/year	**No. of shares repurchased**	**Highest price paid per share** *US$*	**Lowest price paid per share** *US$*	**Aggregate considerations paid** *US$'000*
April 2015	4,367,000	0.56	0.49	2,328
May 2015	200,000	0.57	0.57	113
	4,567,000			2,441

9 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of US$12,086,000 (2014: US$59,461,000) and the weighted average of 1,415,068,000 ordinary shares (2014: 1,408,536,000 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2015	2014
	'000	*'000*
Issued ordinary shares at 1 January	**1,422,160**	1,408,995
Effect of share options exercised	**1,527**	7,576
Effect of shares under share award scheme	**(8,619)**	(8,035)
Weighted average number of ordinary shares at 31 December	**1,415,068**	1,408,536

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of US$12,086,000 (2014: US$62,074,000) and the weighted average number of ordinary shares of 1,415,068,000 shares (2014: 1,453,991,000 shares), calculated as follows:

(i) Loss attributable to equity shareholders of the Company (diluted)

	2015	2014
	US$'000	*US$'000*
Loss attributable to equity shareholders	**(12,086)**	(59,461)
Effect of effective interest on the Term B Loan	**–**	2,488
Effect of changes in fair value recognised as gains for the derivative component of Term B Loan *(note 13(b))*	**–**	(5,101)
Loss attributable to equity shareholders (diluted)	**(12,086)**	(62,074)

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

	2015	2014
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,415,068**	1,408,536
Effect of the potential conversion of the Term B Loan *(note 13(b))*	**–**	45,455
Weighted average number of ordinary shares (diluted) at 31 December	**1,415,068**	1,453,991

The calculation of diluted loss per share amount for the year ended 31 December 2015 has not included the potential effect of (1) the deemed issuance of shares under the Company's share option scheme during the year; and (2) the deemed conversion of the convertible bonds and Term B Loan (note 13(b)) into ordinary shares during the year, as they all have an anti-dilutive effect on the basic loss per share amount for the year.

10 Goodwill

	US$'000
Cost:	
At 1 January 2014	29,314
Exchange adjustments	(634)
Additions	54,458
At 31 December 2014 and 1 January 2015	83,138
Exchange adjustments	(1,656)
At 31 December 2015	81,482
Accumulated impairment losses:	
At 1 January 2014	3,737
Exchange adjustments	(423)
Impairment loss	23,295
At 31 December 2014 and 1 January 2015	26,609
Exchange adjustments	(1,574)
Impairment loss	984
At 31 December 2015	26,019
Carrying amount:	
At 31 December 2015	55,463
At 31 December 2014	56,529

Impairment tests for cash-generating unit containing goodwill

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

	2015	2014
	US$'000	*US$'000*
Orthopedics devices business		
– OrthoRecon Business	**54,458**	54,458
– Others	**1,005**	1,067
Surgical management business	**–**	1,004
	55,463	56,529

As at 31 December 2015, the recoverable amounts of the CGUs under orthopedics devices business and surgical management business are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year to an eight-year period with the final year representing a steady state in the development of the business. Cash flows beyond the five to eight-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculations are as follows, which are based on either the past experience or external sources of information:

	Surgical Management business	**Orthopedics devices business – OrthoRecon Business**	**Orthopedics devices business – Others**
Annualised revenue growth rate during the forecast period	(4%)~37%	0.3%~6%	(1%)~25%
Gross profit ratio	41%~49%	61%~69%	43%~57%
Steady growth rate used in the extrapolation after 5-8 years	3%	3%	3%
Pre-tax discount rate	18%	22%	21%

The impairment loss recognised during the year ended 31 December 2015 relates to the Group's surgical management business.

As a result of the severe market competition, the profitability of the Group's surgical management business segment has been worse than expected for the year ended 31 December 2015. The carrying value of the CGU exceeds its recoverable amount by US$1,235,000 as at 31 December 2015. Accordingly, an impairment loss is recognised relating to the Group's surgical management business activities based in the PRC and impairment loss of US$984,000 has been allocated to reduce the carrying amount of the related goodwill to zero.

11 Trade and other receivables

	2015	2014
	US$'000	*US$'000*
Trade debtors due from:		
– third party customers	**104,465**	100,263
– related parties	**1,272**	1,507
	105,737	101,770
Less: Allowance for doubtful debts *(note 11(b))*	**(4,337)**	(3,896)
	101,400	97,874
Other debtors	**9,317**	11,018
Income tax recoverable	**3,325**	315
Loans and receivables	**114,042**	109,207
Deposits and prepayments	**12,915**	12,723
	126,957	121,930

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

(a) Ageing analysis

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

	2015	2014
	US$'000	*US$'000*
Within 1 month	**33,382**	30,602
1 to 3 months	**40,868**	39,745
3 to 12 months	**17,837**	22,456
More than 12 months	**9,313**	5,071
	101,400	97,874

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

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2015	2014
	US$'000	*US$'000*
At 1 January	**3,896**	2,175
Impairment loss recognised	**635**	1,746
Exchange adjustments	**(194)**	(25)
At 31 December	**4,337**	3,896

The Group's trade debtors of US$4,337,000 (2014: US$3,896,000) were individually determined to be impaired as at 31 December 2015. 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 and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2015	2014
	US$'000	*US$'000*
Neither past due nor impaired	**73,858**	87,246
Less than 1 month past due	**17,633**	3,292
1 to 3 months past due	**2,554**	1,923
More than 3 months past due	**7,355**	5,413
	27,542	10,628
	101,400	97,874

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.

12 Trade and other payables

	2015	2014
	US$'000	*US$'000*
Current		
Trade payables due to:		
– third party suppliers	**42,852**	55,226
– a joint venture	**864**	–
	43,716	55,226
Other payables and accrued charges	**51,343**	52,419
Dividends payable to ordinary shareholders	**89**	89
Dividends payable to holders of non-controlling interests	**323**	–
	95,471	107,734
Advances received from:		
– third party customers	**1,217**	915
– disposal of partial interests in a subsidiary	**2,730**	–
	99,418	108,649
Non-current		
Other payables and accrued charges	**1,541**	1,793

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:

	2015	2014
	US$'000	*US$'000*
Within 1 month	**15,726**	17,681
Over 1 month but within 3 months	**2,216**	11,137
Over 3 months but within 6 months	**1,422**	275
Over 6 months but within 1 year	**186**	26,133
Over 1 year	**24,166**	–
	43,716	55,226

13 Interest-bearing borrowings

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

	2015	2014
	US$'000	*US$'000*
Within 1 year or on demand	**55,086**	215,897
After 1 year but within 2 years	**91,727**	43,173
After 2 year but within 5 years	**37,647**	89,644
	129,374	132,817
	184,460	348,714

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

	Note	**2015**	2014
		US$'000	*US$'000*
Bank loans			
– secured	*(a)*	**50,926**	57,813
– unsecured	*(a)*	**95,000**	92,977
		145,926	150,790
Secured Otsuka Loans	*(b)*	**38,270**	197,463
Secured loan from SMFA		**264**	461
		184,460	348,714

(a) Bank loans

At 31 December 2015, the bank facilities of the Group were secured by mortgages over land use rights and buildings held for own use with net book value of US$4,478,000 and US$76,187,000, respectively (2014: land use rights, buildings held for own use and deposits with banks with net book value of US$4,862,000, US$76,713,000 and US$44,942,000, respectively). Such banking facilities amounted to US$60,000,000 (2014: US$72,685,000). The facilities were utilised to the extent of US$52,000,000 (2014: US$57,813,000).

One of the Company's banking facilities of US$5,000,000 (2014: US$5,000,000) is subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenant, drawn down would become payable on demand. The Group regularly monitors its compliance with the covenants. As at 31 December 2015, none of the covenants relating to drawn down facilities had been breached.

(b) Otsuka Loans

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

In January 2014, the Company fully drew down the Otsuka Loans.

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

The remaining balance of the Otsuka loans at 31 December 2015 represent the Term B Loan, which is of a principal amount of US$40,000,000 and will become mature three years after drawdown. Term B Loan contains a conversion option (the "Conversion Option") which enables the holder to convert the outstanding amount and certain unpaid interest amounts of the Term B Loan into certain number of the Company's ordinary shares at any time prior to its maturity at an initial conversion price of HK$6.84 per share, subject to adjustments under certain terms and conditions of the Term B Loan.

The movement of the liability component and the derivative component of the Otsuka Loans is set out below:

	Liability component	**Derivative component**	**Total**
	US$'000	*US$'000*	*US$'000*
As at 1 January 2015	197,463	592	198,055
Changes in fair value recognised in profit or loss during the year *(note 5)*	–	(195)	(195)
Repayment during the year	(160,000)	–	(160,000)
Interest charged during the year *(note 6(a))*	2,438	–	2,438
Interest paid during the year	(1,631)	–	(1,631)
As at 31 December 2015	38,270	397	38,667

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Overview

As at 31 December 2015, there were seven business segments for the Group, namely, orthopedics, cardiovascular, endovascular, electrophysiology, neurovascular, surgical management, and diabetes care and endocrinal management. which produce 165 kinds of products for sale.

For the year ended 31 December 2015, we derived 54.6% of our revenue from orthopedics devices, 35.3% from cardiovascular devices, 4.3% from endovascular devices, 1.5% from EP devices, 2.1% from neurovascular devices, 1.6% from surgical management, and 0.6% from diabetes care and endocrinal management. During the year of 2015, while maintaining our leading position in the People's Republic of China (the "PRC") cardiovascular devices market, we further deepened the diversification of our business, and made great progress in international business.

Orthopedics Business

Our orthopedics devices business offers an extensive range of products that includes reconstructive joints, spine, trauma, sports medicine and other professional implants and equipment. The orthopedics business is committed to providing innovative and effective clinical solutions to assist in the hip and knee reconstruction surgery. Its main product lines are in accordance with two major trends in the orthopedic community today, which are fast recovery and minimal invasiveness.

Following the acquisition of OrthoRecon business from Wright Medical Group Inc. (NASDAQ:WMGI) ("Wright Medical") in 2014, MicroPort Orthopedics Inc. ("**MicroPort Orthopedics**") successfully transitioned into a business entity globally launching the MicroPort brand which is committed to providing innovative and effective clinical solutions and instruments that support in spine and trauma, hip and knee reconstruction surgeries. In 2015, the second year after the acquisition, we focused on optimizing organizational structure of our orthopedics business, integrating supply chain, growing revenue, controlling manufacturing and operating costs, and accelerating introduction of MicroPort Orthopedics products into PRC market.

2015 was a transformational year for MicroPort Orthopedics during which it fully integrated into MicroPort, as it materially accelerated its turnaround plans both through targeted and well executed expense reduction initiatives in manufacturing and administration operations, while also significantly improved the revenue trend across all key international geographies. More specifically, our US core business grew at market rates for the year, which we consider to be a remarkable accomplishment as this business had been declining for the previous several years. The Japan negative revenue trend also started showing indications of improvement in the last quarter of 2015 thanks to several initiatives aimed at a stronger commercial alignment, and more robust training and medical education efforts. Our remaining international business provided a stable performance for the year, particularly in many of our Western

European direct operations, despite of the challenge of a strong US dollar which limited the purchasing ability of many of our international distributor partners. In 2015 we introduced in key international markets our Preserve™ classic stem, our Prophecy™ Ligament Balancing instrumentation, and initiated the step-wise roll-out of our Evolution™ revision system. Our product launch plans for the coming year will add significant additional business opportunities across the world.

In 2015 we also redefined our global strategy, staying true to the very essence of what we stand for: a company where The Patient Always Comes First. Through our proprietary and highly differentiated technologies in Hip and Knee reconstruction, we introduced the concept of Full Function, Faster™, positioning ourselves as the only company able to claim that space in this industry. Through our SuperPath™ Hip technique and our Advance™ and Evolution™ Medial Pivot Knee designs we can provide surgical solutions to allow patients to go back to activity levels in a way no other company can, and proof of that is the continuous feedback we have been receiving from our surgeon partners across the world, which has been exceeding our most optimistic expectations.

In 2015, our orthopedics business delivered another strong year in PRC, with sales growing significantly above the market rates while also reaching critical strategic milestones with the inception of our Global Instrument Supply Center ("GISC") and the creation of our Shanghai-based Research and Development ("R&D") orthopedic capabilities, with a reach going far beyond PRC itself. The GISC was initiated to manage surgical instrumentation used in the implantation of our products, which undertakes the task of centralized purchasing of surgical instrumentation for the business divisions of joints, spine and trauma, as well as logistics and de-consolidation of the instrumentation. The GISC includes six functional departments covering global purchase, collaborative planning, customer orders delivery, projects engineering, quality control and laws and regulations, and logistics and warehousing. As at 31 December 2015, the six major functions have been launched and have had close cooperation with the corresponding departments of MicroPort Orthopedics. GISC has begun to build strategic cooperative relations with many Asia-based orthopedics instrumentation suppliers. Some orthopedics instrumentation and consumptive materials have already been put into mass production for supply of our orthopedics branches in America and Europe. The GISC strategy is designed to tightly connect the sales and marketing department, external suppliers, internal production bases and distributors of our orthopedics business into an integrated supply chain. Through the collaborative operation and overall arrangement of information flow, capital flow, work flow and logistics, GISC aims to provide high-end, high performance surgical instrumentations to our surgeons and customers at low cost, so as to realize a win-win situation for the Company and our business partners.

Meanwhile, we also accelerated the process of introducing our US made products of MicroPort Orthopedics into PRC market through acquiring China Food and Drug Administration (the "CFDA") registration certificates and publicize the products and technologies through a series of seminars or professional education activities for surgeons, so as to enable Chinese patients get fast recovery with the help of our superior products and advanced technique. As at 31 December 2015, SuperPath™ Micro Posterior Approach Total Hip Reconstruction Technique has covered more than 100 hospitals in 21 provinces/municipalities in PRC, and the number of operations reached more than 90 per month. In 2015, our Evolution™ Medial-Pivot Knee System was launched in mainland China and Hong Kong and completed about 50 operations successfully, which offered more solutions for patients, and helped reinforcing the brand image and increase market share for the Group.

In addition, our internally developed orthopedic devices also made extraordinary achievements in 2015. 4 products were approved for market launch by CFDA, including Futago™ Lumbar and Thoracic Fusion Device ("Futago™") and Futago™ Cervical Interbody Fusion Device.

Cardiovascular Devices Business

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

Our high quality product offering, mainly attributed by our second-generation coronary stent Firebird2™ Rapamycin-Eluting CoCr Coronary Stent ("Firebird2"), which enabled us to be in the leading position of the cardiovascular devices market in the PRC. Firebird2 continuously remained as the top selling product of the Group in 2015. Our third generation internally developed coronary stent product Firehawk® Drug Eluting Stent ("DES") ("Firehawk") is the world's first and only target eluting stent, which represents the latest product offering of our DES family.

2015 is a challenging year for our cardiovascular business, as the emerging of more manufacturers made the competition in PRC market increasingly more fierce, and the reformation of tendering policy of medical policies brought more uncertainties to our sales volume and price. Nevertheless, with our high quality products and over 17 years' experience in cardiovascular devices market, as well as our continuous efforts in developing market and increasing market coverage, we successfully maintained our leading position in the cardiovascular device market in the PRC in 2015. There were totally about 274,000 coronary stents and about 29,000 balloon catheters delivered, representing a growth rate of 27% and 24%, respectively comparing with the year of 2014. The sales of Firebird2 and Firehawk covered more than 1,100 hospitals in 30 provinces and municipalities in the PRC.

Meanwhile, we also accelerated the process of launching our DES products in international market. In January 2015, Firehawk received the CE mark approval, which provides the preconditions for the Company to penetrate the European DES markets with the sale of Firehawk in the European Economic Area. In 2015, our DES products were successfully launched in five countries (Germany, Denmark, Britain, Belgium and the Netherlands) with direct sales model for the first time. At 31 December 2015, there are other 9 international countries that commenced Firehawk sales, including Chile, Peru, Turkey, Dominican Republic, Thailand, Philippines, Indonesia, Singapore and Malaysia.

To support the commercial activities in Europe after obtaining the CE mark, we began to conduct and execute our TARGET All-Comers ("TARGET AC") European post-market approval clinical study for Firehawk. This randomized post-market approval clinical trial consists of approximately 1,656 patients, including approximately 22 investigator sites in 10 to 12 European countries. The first patient was enrolled for the TARGET AC trial in December 2015.

Endovascular Devices Business

The endovascular devices business focuses on providing a range of products and services for the interventional treatment of thoracic and abdominal aortic aneurysm, peripheral vascular disease, aortic dissection, and other endovascular related diseases. As an integral part of the cardiovascular product line, the endovascular devices business provides comprehensive vascular stent and graft systems for the treatment of aortic and peripheral vascular diseases.

At 31 December 2015, the product categories of endovascular devices include AAA/TAA Stent Graft System (Hercules™-T Low Profile, Hercules™-T, Hercules™-B and Aegis™), Hercules Balloon Dilation Catheter (Hercules™ Balloon Dilation Catheter), Surgical Stent Graft System (CRONUS™) and Peripheral Stent System (CROWNUS®).

In 2015, we engaged in developing blank markets and enlarging distributor coverage of our products. In addition, our new product Hercules™-T Low Profile AAA Stent-Graft and delivering system showed excellent clinical performance after launching into market, which enabled stable increase of its domestic market share and remarkably enhanced the competitiveness of the Group.

In 2015, great breakthroughs were achieved in R&D projects of endovascular devices. We successfully completed the first clinical application of Reewarm™ PTX Drug Balloon Dilation Catheter ("Reewarm™ PTX"), the in-house developed device designed for the treatment of peripheral arterial disease ("PAD") in the superficial femoral artery and popliteal artery. Reewarm™ PTX provides patients with an additional option to treat PAD. We also completed the enrollment of pre-market clinical trial for its first-generation Reewarm18 Peripheral Balloon Dilation Catheter ("Reewarm18") to prove its safety and efficacy. The market launch of Reewarm18 is expected to break the domination by foreign companies to treat peripheral arteria diseases which have severely impacted the life quality of Chinese senior citizens.

In 2015, our endovascular devices business enjoyed a healthy growth. Revenue increased by 14.5% comparing to 2014.

EP Devices

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

Remarkable accomplishment has been achieved by our EP devices segment in market exploitation and sales in the year of 2015. Both the number of hospitals covered and the number of distributors increased greatly. It achieved the 2015 annual sale targets with a growth of 20.9% compared with that of 2014.

During the year 2015, the Columbus™ Three-dimensional EP Navigation System has been applied in hospitals of Dominican Republic, Greece, Turkey and Spain, and was put into trial use in a hospital of Germany. It also obtained the CFDA approval in early 2016. Our in-house developed EasyFinder™ Electrophysiology Steerable Diagnostic Catheter ("EasyFinder™") obtained CFDA approval and the CE mark in September 2015 and December 2015 respectively. EasyFinder™ has already been distributed in Dominica, Greece, Spain and other countries, well accepted by the physicians. Gaining the approval of the CFDA means that EasyFinder™ Electrophysiology Steerable Diagnostic Catheter will officially enter the domestic market, bringing more benefits to Chinese arrhythmias patients. In November 2015, the OptimAblate™ Cardiac RF Generator and OptimAblate™ Irrigation Pump, an in-house developed device intended for RF ablation therapy of the human heart obtained the official CE Certification of EU, which indicated that our EP cardiac RF generator products and irrigation pump series products make successful entry into EU markets. It sets a solid foundation for the Company to further develop the international market.

Neurovascular Devices Business

The neurovascular business unit 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. Product lines include APOLLO® Intracranial Stent System, WILLIS® Intracranial Stent Graft System, TUBRIDGE™ Vascular Reconstruction Device, and AETHER® Distal Protection Device, while five other major products are currently in development stage.

For the fiscal year of 2015, the neurovascular business continued its significant stride in increasing in revenue and profitability with a sales increase of 24.9% and 27.8% in profit. This was mainly due to the sales of WILLIS® Intracranial Stent Graft System ("WILLIS®"), the first PRC designed and manufactured stent for the treatment of intracranial aneurysms. WILLIS® represents the highest priced domestic stent product in PRC. The market acceptance of this highly priced domestic medical device marked the history in Chinese medical device industry. In January 2015, the WILLIS® project titled "Research and Clinical Application of Noninvasive Imaging and Minimally Invasive Treatment of Intracranial Aneurysm and its Related Vascular" was granted the second-class award of Science and Technology Achievements in the National Science and Technology Award Congress.

In addition, Tubridge™ Vascular Reconstruction Device ("Tubridge™") was presented in World Live Neurovascular Conference (WLNC) in Chicago in June 2015. During the live demonstration, Tubridge™ was successfully deployed at the aneurysm site with ease and accuracy. The whole procedure lasted only for 30 minutes and its performance was highly recognized and praised by experts in the audience. Tubridge™, which took eight years for Shanghai Changhai Hospital and MicroPort NeuroTech to jointly develop, marks a breakthrough in the treatment of cerebral aneurysms, especially in its significant reduction of recurrence rate in large and giant aneurysms. The device enables the reconstruction of cerebrovascular arteries, featuring excellent delivery ability, low collateral impact and high vessel patency rate.

Surgical Management Business

The surgical management business focuses on extracorporeal circulation products and occlusion series products used for Congenital Heart Disease. The products of surgical management include Membrane Oxygenation System, Atrial Septal Defect Occluder ("ASD Occluder") and Delivery System, Ductus Arteriosus Occluder ("PDA Occluder") and Delivery System, Ventricle Septal Defect Occluder ("VSD Occluder") and Delivery System.

On 15 May 2015, our VSD occluder was awarded certification by the CFDA. So far, all of the three categories of occluder products (ASD/PDA/VSD) have been approved to be launched in PRC market, which provided more opportunities for developing market of our occluder products.

In 2015, our occluder series products, including ASD Occluder and Delivery System, PDA Occluder and Delivery System, VSD Occluder and Delivery System were approved registration in Kazakhstan, which laid the foundation for the products to further explore the international market, and will bring health and good news for more overseas patients with congenital heart disease. In addition, our Disposable Arterial Micro Plug Filter just obtained the official CE mark of EU in early 2016. CE registration of Membrane Oxygenation System also achieved substantive progress.

In the fiscal year of 2015, the revenue of surgical management segment increased stably by 5.2% compared with that of 2014.

Diabetes Care and Endocrinal Management Business

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

In January 2015, our La Fenice® Insulin Pump obtained a re-registration certificate from CFDA, adding vibration alarming function to the original design.

In the fiscal year of 2015, the sales volume of diabetes care and endocrinal segment increased stably by 4.4% compared with that of 2014.

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

The MSC was founded by the Company and Sorin Group with a shareholding structure of 51% and 49% respectively. With its vision of "Innovated in China, for China", the specific purpose of the MSC is to market and develop CRM devices, including implantable pacemakers, defibrillators, cardiac resynchronization devices and related devices and services in PRC. The two companies will collaborate, through the MSC, on the import, sale and service of Sorin's CRM devices in PRC and, in parallel, in accelerating the development of locally manufactured and developed CRM products for the PRC market.

On 27 June 2015, the MSC launched PRC's first domestic cardiac pacemaker production line with international advanced standards. This milestone is significant because it means that PRC can now manufacture pacemaker devices on par with international standards and marks the day that the PRC cardiac pacemaker market will no longer be solely reliant on multi-national device manufacturers. By introducing a world-class pacemaker production line and advanced technologies, the MSC aims to develop and produce pacemaker technologies and products with our own intellectual properties, in order to revolutionize PRC's pacemaker industry from "Made-in-China" to "Innovated-in-China" in collaboration with domestic & international cardiovascular experts and research institutions.

In 2015, MSC's 2nd year of operation, the in-house R&D projects went smoothly, and achieved its milestone as planned. MSC's sales continuously exceeded the quarterly targets, and reached US$2.1 million in 2015.

Research and Development

Keep in mind that R&D is the driver and motivation of our future growth, we continue not only to invest in our in-house R&D capability but also positively cooperate with international technology pioneers so as to maintain continuous competitiveness in the global market. As at 31 December 2015, there are approximately 80 projects in progress and over 517 (31 December 2014: 460) high skilled employees serving for our in house R&D team.

In 2015, our R&D projects were in an orderly way of progress. We were able to advance and achieve critical milestones in some key R&D projects. Several R&D projects were enrolled into the national or municipal supporting plans and were funded by the government.

Our independently researched and developed Firesorb™ Bioresorbable Rapamycin Target Eluting Coronary Scaffold System (Firesorb™) is a polymer absorbable scaffold with a wall thickness of only 100μm-125μm. Its design of thin wall allows quick endothelialization after scaffold implantation, and so reduces the risk of postoperative thrombosis. With the decrease in scaffold materials, the degradation period will also be further shortened. In addition, the scaffold's drug coating only exists on abluminal surface, which enables the targeted release function. This design also enhances the use efficiency of drugs, and avoids a large number of drugs becoming a long-term residue in the body. In January 2016, Firesorb scaffold's first time first-in-man clinical trial was launched and completed successfully, which laid a good foundation for subsequent clinical trials of the product. We expect Firesorb will be an important supplement of the Company's existing coronary stents products in providing more solutions in treatment of coronary artery diseases and benefit more patients.

In 2015, we have completed 30 cases in feasibility clinical trials for our Transcatheter Aortic Valve Implantation ("TAVI") device, with good clinical outcomes as evidenced by good clinical follow-up results, and were unanimously praised by domestic and foreign professionals.

We also achieved several great breakthroughs in some key technologies for our surgical robot project which enable us to proceed toward market leader from follower in this field.

Manufacturing

In 2015, the Company continued its efforts on optimizing supply chain, improving production technology, shortening production cycle, increasing production efficiency and maintaining safety in production.

On supply chain optimization, the Company has been devoted to improving quality of raw material and controlling raw material inventory. The pass percentage of incoming quality control surpassed 97%, and no major raw materials related quality abnormalities accrued.

On manufacturing process, we further streamlined and optimized the production system, reduced non value-added work, shortened production cycle and improved production efficiency through analysis on value stream mapping. In 2015, the Manufacturing Executive System was put into operation, which enhanced the digital production management level, and provided effective guarantee for information management in the manufacturing process. In addition, the precise tubing center, industrial design center, sterilization techniques and production services platform, packaging design and process platform which newly established for supply chain provided strong support for R&D and manufacturing of various products of the Company.

Regarding safe production, the Company made efforts in improvement of safety consciousness of operating personnel through safety training, and conducted regular inspections to find potential safety hazards and eliminate them in time. In 2015, no major safety accidents happened in the Company, and the Company passed all government inspections on environment protection, safety supervision, and fire prevention.

Quality Assurance ("QA")

Quality is always the foundation of our products. We have an independent quality and regulatory affair department and devote significant resources to quality management of our products through monitoring every stage of our product realization processes including research and development, product designs, purchase of raw materials, manufacturing, product releases, product feedbacks and risk management, so as to ensure consistent product quality that meets our quality management standards and policies. The quality and regulatory affair 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. It also conducts various tests of our products throughout the R&D and manufacturing processes, including metal and drug analyses and product fatigue tests.

In 2015, we continued to perform strictly control over and improve the operation of our quality management system. We strived to enhance the level of continuity and automation, optimize automation and informationization of inspection measures, which effectively ensured the quality of all products and R&D projects with higher efficiency and lower cost. During 2015, the Company had external audits on quality system from various institutions of PRC, EU, Asia and Pacific region and North America for more than 50 times, and passed all the inspections.

In 2015, in order to facilitate the common development and improvement of quality management system in headquarter and subsidiaries, and identify the opportunities for improvement, we conducted internal auditing for the headquarter and 9 subsidiaries for the fourth consecutive year to carry out the strategy of "one MicroPort brand, one quality system". We also held a series of activities in "Quality Month" including training, on-site inspection and appraisal, grading of internal auditors, and seminars to enhance the consciousness of quality in each employee.

As for MicroPort Orthopedics, the base of our orthopedics business was situated in Arlington, Tennessee, US, it maintains a comprehensive quality system that is certified to the European standards ISO 9001 and ISO 13485 and to the Canadian Medical Devices Conformity Assessment System (CMDCAS). As a medical device manufacturer, MicroPort Orthopedics has registrations and certifications with the FDA which require periodic audits and routine inspections to determine if MicroPort Orthopedics has sufficient systems in place to ensure product safety and efficacy.

Competition

The environment in which we operate is continuously evolving. As the domestic market leader among the PRC companies manufacturing vascular stents, we anticipate future competition both domestically and internationally. Nevertheless, we are confident of maintaining our market position owing to the high entry barrier and technological advancement that the Group has made.

In the coming years, in order to compete effectively in the market, we will continually broaden our products portfolio by innovation and investment in R&D; further maintain our leading position in domestic medical device market and keep on going abroad strategy.

Intellectual Property

Intellectual property, an intangible asset of the Company, is an important factor to enhance our competitiveness in the medical devices market. Thus, we have become increasingly focused on the creation, protection, management and utilization of our intellectual property. We strive to provide the highest quality medical devices and excellent service through continuous innovation, as well as aggressive protection of the innovation and technologies in domestic and significant overseas markets through patents and trade secrets to build a unique "Global Brand Belonging to Patients and Doctors".

In 2015, we filed 173 patent applications, gained 122 granted patents, and identified and acknowledged 8 core trade secrets. We also filed 152 trademark applications and gained 102 registered trademarks respectively in the globe.

In 2015, the Company was nominated and elected to be the first batch of companies in Shanghai which own Enterprise Science Association.

FINANCIAL REVIEW

OVERVIEW

Facing a challenging economic environment with intense competition in China market, we have successfully achieved a 5.8% year-on-year revenue growth for the year ended 31 December 2015 and maintained our leading position in the PRC. We aim at bringing our innovations, technologies and services to millions of global patients and becoming a leading PRC-based global enterprise.

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

REVENUE

US$'000	**Financial year ended**		Percent change	
	2015	2014	in US$	in local currency
Orthopedics devices business	**205,237**	210,371	(2.4%)	2.6%
– US	**87,527**	83,837	4.4%	4.4%
– Europe	**59,050**	62,803	(6.0%)	3.5%
– Japan	**27,914**	37,096	(24.8%)	(14.0%)
– PRC	**9,691**	6,560	47.7%	49.7%
– Others	**21,055**	20,075	4.9%	8.0%
Cardiovascular devices business	**132,553**	111,872	18.5%	20.4%
Endovascular devices business	**16,150**	14,100	14.5%	16.5%
Electrophysiology devices business	**5,813**	4,807	20.9%	23.2%
Neurovascular devices business	**7,851**	6,285	24.9%	27.2%
Surgical devices business	**6,102**	5,802	5.2%	6.4%
Diabetes devices business	**2,138**	2,047	4.4%	6.3%
Total	**375,844**	355,284	5.8%	9.6%

The following discussion is based on our seven major business segments for the year ended 31 December 2015. Our revenue for the year ended 31 December 2015 was US$375.8 million, an increase of 5.8% compared to US$355.3 million for the year ended 31 December 2014. Such increase was primarily driven by cardiovascular devices business.

– *ORTHOPEDICS DEVICES SEGMENT*

Our orthopedic devices segment achieved revenue of US$205.2 million for the year ended 31 December 2015, representing a growth of 2.6% in local currency or a decrease of 2.4% in US$ compared to the year ended 31 December 2014. Such increase in local currency was mainly attributable to (i) revenue in the US core market successfully turned around and achieved 4.4% growth in local currency as we successfully executed the strategy of stabilizing and growing the US market since the Group acquired the OrthoRecon business in January 2014, with measures including more effective product promotion, medical education and recruitment of experienced sales representatives, etc.; (ii) revenue in PRC market achieved a significant growth of 49.7% in local currency by fast launching of orthopedics products to more hospitals across provinces, attracting more distributors and gaining greater market recognition from Chinese surgeons; (iii) revenue in European market recorded a modest growth rate of 3.5% in local currency; and (iv) partially offset by the fact that revenue in Japan operationally declined 14.0% in local currency due to reduced reimbursement rates at Japan hospitals. Significant focus and efforts are being made to help to turn around Japan business.

– *CARDIOVASCULAR DEVICES SEGMENT*

Our cardiovascular devices segment recorded revenue of US$132.6 million for the year ended 31 December 2015, representing a growth of 20.4% in local currency or a growth of 18.5% in US$ compared to the year ended 31 December 2014. Such revenue increase was mainly attributable to (i) increased sales of Firebird2 resulting mainly from expanded market coverage by recruiting experienced distributors, and (ii) Firehawk entered more hospitals across more provinces in the PRC and more overseas countries, with its global revenue achieving 301.5% growth compared with the year ended 31 December 2014.

– *ENDOVASCULAR DEVICES SEGMENT*

Our endovascular devices segment achieved revenue of US$16.2 million for the year ended 31 December 2015, representing a growth of 16.5% in local currency or a growth of 14.5% in US$ compared with the year ended 31 December 2014. Such growth was mainly attributable to the organic growth of TAA/AAA Stent Graft Systems and Surgical Stent Graft System with continued high market recognition.

– *EP DEVICES SEGMENT*

Our EP devices segment recorded revenue of US$5.8 million for the year ended 31 December 2015, representing a growth of 23.2% in local currency or a growth of 20.9% in US$ compared to the year ended 31 December 2014. Such increase was mainly attributable to (i) EP devices being continuously launched to more international markets this year, and (ii) further recognition among physicians in PRC.

– *NEUROVASCULAR DEVICES SEGMENT*

Our neurovascular devices segment recorded revenue of US$7.9 million for the year ended 31 December 2015, representing a growth of 27.2% in local currency or a growth of 24.9% in US$ compared to the year ended 31 December 2014. Such growth was mainly attributable to the organic growth of APOLLO Intracranial Stent System, and WILLIS® Intracranial Stent Graft System obtaining greater market recognition since launch in 2013.

– *SURGICAL MANAGEMENT SEGMENT*

Our segment of surgical management devices recorded revenue of US$6.1 million for the year ended 31 December 2015, representing a growth of 6.4% in local currency or a growth of 5.2% in US$ compared to the year ended 31 December 2014. The increase was mainly attributable to more sales promotion activities.

– *DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT*

Our segment of diabetes care and endocrinal management generated revenue of US$2.1 million for the year ended 31 December 2015, representing a growth of 6.3% in local currency or a growth of 4.4% in US$ compared to the year ended 31 December 2014. The increase resulted primarily from extensive promotion for infusion pumps.

COST OF SALES

For the year ended 31 December 2015, cost of sales was US$123.3 million, representing a 10.1% increase as compared to US$112.0 million over the year ended 31 December 2014, which was driven by increased sales volume.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit increased by 3.8% from US$243.3 million for the year ended 31 December 2014 to US$252.5 million for the year ended 31 December 2015. Gross profit margin is calculated as gross profit divided by revenue. Our gross profit margin decreased to 67.2% as compared to 68.5% for the year ended 31 December 2014, mainly as a result of higher manufacturing cost in the OrthoRecon business due to lower production volume and lowered unit sales prices because of tender for cardiovascular business.

OTHER REVENUE AND NET INCOME

We had other revenue of US$12.2 million and other net income of US$3.3 million for the year ended 31 December 2015, while other revenue and other net income were US$10.1 million and US$1.9 million respectively for the year ended 31 December 2014. The increase in other revenue was mainly attributable to more government grants transferred from deferred income as the conditions attaching to the grant was complied with, whereas the increase in other net income was primarily attributable to increased foreign exchange gain.

RESEARCH AND DEVELOPMENT COSTS

Our R&D costs increased by 10.6% from US$54.6 million for the year ended 31 December 2014 to US$60.4 million for the year ended 31 December 2015. The 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 decreased by 4.4%, from US$133.6 million for the year ended 31 December 2014 to US$127.7 million for the year ended 31 December 2015. The decrease was mainly attributable to (i) lower rebranding costs of the OrthoRecon business after the acquisition in 2014, and (ii) reduced labor cost of the orthopedics business.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by 8.1% from US$70.8 million for the year ended 31 December 2014 to US$65.0 million for the year ended 31 December 2015. The decrease was mainly attributable to (i) the decreased IT and travel expenses of orthopedics business and partially offset by (ii) the increased depreciation, office expenses and utility expenses due to the new headquarter in Shanghai launched since May 2014.

OTHER OPERATING COSTS

Other operating costs decreased from US$35.7 million for the year ended 31 December 2014 to US$4.9 million for the year ended 31 December 2015. The decrease was primarily due to the decrease of post-acquisition integration related expenses by US$9.4 million and reduced impairment on goodwill by US$22.3 million in the year ended 31 December 2015.

FINANCE COSTS

Finance costs increased from US$13.0 million for the year ended 31 December 2014 to US$14.8 million for the year ended 31 December 2015. The increase was mainly driven by the interest of interest-bearing borrowings and convertible bonds, primarily for the operation of the OrthoRecon business.

INCOME TAX

Income tax decreased from US$6.1 million for the year ended 31 December 2014 to US$2.8 million for the year ended 31 December 2015. The decrease was mainly due to more deductible items of the PRC subsidiaries in 2015. No deferred tax asset was recognised for loss-making subsidiaries as at 31 December 2015.

INTANGIBLE ASSETS AND GOODWILL

For the year ended 2014, the Group recorded impairment losses on intangible assets and goodwill of US$24.3 million regarding orthopedics devices, cardiovascular devices and surgical management business. For the year ended 31 December 2015, an additional impairment loss on intangible assets and goodwill of US$1.3 million was recognised in profit or loss, in relation to surgical management business arising from the acquisition of Dongguan Kewei in prior year. In light of increased market competition and over saturation of the surgical management devices market in the PRC, there has been a downward adjustment of revenue growth and profit margin in determining the value of the goodwill remaining. The lower revenue growth and profit margins resulted in a lower recoverable amount of the cash-generating units ("CGU(s)") to which the goodwill had been allocated to and hence, impairment losses have been recognised to reduce the carrying value of the related goodwill to zero during 2015.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, we had cash and cash equivalents of US$99.5 million, as compared to US$215.6 million as at 31 December 2014. 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

Borrowings of the Group as at 31 December 2015 was US$279.3 million, with a decrease of US$161.0 million as compared to US$440.3 million as at 31 December 2014. As at 31 December 2015, the gearing ratio (calculated by dividing total borrowings by total equity) of the Group decreased to 88% as compared to 128% as at 31 December 2014. Such change is primarily due to the repayment of the Otsuka Term A Loan and Term C Loan of US$160 million in January 2015.

WORKING CAPITAL

Our working capital as at 31 December 2015 was US$166.6 million, as compared to US$180.1 million as at 31 December 2014.

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 Renminbi ("RMB"), Euro and Japanese yen). For the year ended 31 December 2015, the Group recorded a net foreign exchange gain of US$4.3 million, as compared to a net foreign exchange loss of US$1.5 million for the year ended 31 December 2014.

CAPITAL EXPENDITURE

For the year ended 31 December 2015, the Group's total capital expenditure amounted to approximately US$47.0 million, which was used in (i) construction of building; (ii) acquiring equipment and machinery; and (iii) expenditures for R&D projects in development stage.

CHARGE ON ASSETS

As at 31 December 2015, the Group had pledged (i) the assets of MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., MicroPort Direct LLC; (ii) the real property owned by MicroPort Orthopedics Inc.; (iii) the equity interests in MicroPort Scientific Cooperatief U.A., MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., MicroPort Direct LLC, MicroPort Shanghai, MicroPort Orthopedics Japan K.K., MicroPort Scientific SAS, MicroPort Scientific SRL, MicroPort Orthopedics NV, MicroPort Scientific Ltd. and MicroPort Scientific GmbH; and (iv) all right, title and interest in certain assets held by MicroPort Orthopedics Japan K.K. for the purpose of securing Otsuka loan with a carrying value of US$38.3 million. The Group had also pledged its manufactory building, headquarter building and land use right held for own use for the purpose of securing a long term loan from Shanghai Municipal Financial Administration with a carrying value of US$0.3 million and a banking facility of US$60 million.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

SUBSEQUENT EVENTS

1. Secondary Share Sale of a Substantial Shareholder

On 25 January 2016, Otsuka Medical Devices Co., Ltd. ("Otsuka"), the Company's largest shareholder, completed the Secondary Share Sale Agreement with Erudite Investment Limited (the "Purchaser"), an exempted company incorporated in the Cayman Islands which is ultimately controlled by Carlyle Group L.P., ("Carlyle"). Accordingly, 86,000,000 ordinary shares in the capital of the Company together with all rights accruing or attached to the shares, representing approximately 6.03% of the issued share capital of the Company have been transferred by Otsuka to the Purchaser at the consideration of HK$263,160,000, representing HK$3.06 per Sale Shares. Dr. Zhaohua Chang, the Chairman and CEO of the Company, and nine other executive management of the Company had 42,140,000 non-voting preference shares in the capital of the Purchaser, at an issue price of HK$3.06 per share.

2. Issue of Convertible Bond

On 13 January 2016, the Company issued convertible bonds in the aggregated principal amount of US$65,000,000 to Owap Investment Pte Ltd. wholly owned by GIC and Erudite Parent Limited ultimately controlled by Carlyle. The convertible bonds bear interest at LIBOR plus 1% on the outstanding balances with a maturity date of five years.

HUMAN RESOURCES ("HR")

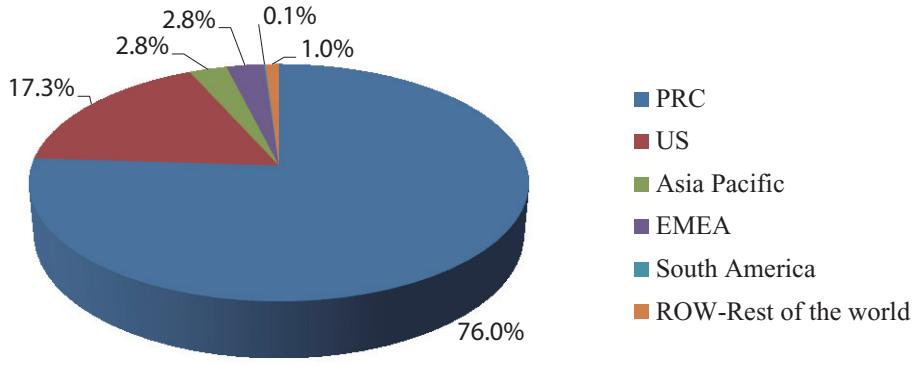
While reviewing the year of 2015 from HR lens, the theme of the Resources Optimization and HR Shared Service enhancement will pop-up as the main focus for the year. HR supported and drove the resources streamlining and the organization realignment across the corporation which included recently acquired OrthoRecon business unit. HR Shared service model launched in the headquarters to enhance the people service experience for our employees. We hold the belief in the Talent Management process with "One Talent Review & Inventory", "Dual Career Development", "Leadership Development Trio Program" as we laying the foundation for the MicroPort "Ten Plus Five" strategic growth.

TALENT ACQUISITION

The Company believe that a motivated and balanced workforce is crucial for building a sustainable business model and delivering long-term returns.

As at 31 December 2015, MicroPort employees totaled 2,926, working in PRC, US, EMEA, South America & Asia Pacific. The demographics of workforce are summarized below:

WORKFORCE DISTRIBUTION BY REGIONS



✧ Total Workforce: 2,926, as at 31 December 2015

We devoted over 20 percentage of the total human capital in the R&D areas which includes 380 Post Graduate scientists and technicians. And we attracted fifty-one returnees from overseas who share the same mission and are dedicated to our success in PRC. HR has principles to balance between the *External Acquisition* and the *Promotion from Within* to ensure sufficient talent bench strength to fuel MicroPort's future growth.

TALENT DEVELOPMENT

HR utilized Assessment Center process to provide the foundations for more focused talent and leadership development within MicroPort. Twenty-nine newly promoted management team has been experienced the 360, Annual Review as well as the Leadership Potential Assessment processes. Among the Dual Career tracks, the technical path had Ninety-Six Technicians promoted within 2015. In addition to the leadership development, HR has accomplished the e-Performance Appraisal systems as well as the Competency Model development for the Project Management and Sales Marketing functions. 2015 certainly is a fruitful year for the People Development.

INNOVATIVE HR SOLUTIONS

In 2015, we were able to engage Thirty-Seven leaders served as the Internal Trainer to deliver the training curriculum. At the same time HR has established robust training and development curriculums to cover the various business needs with total of Sixty-Four sessions conducted with thirteen thousands hours of delivery (AVG 5 hour per person). In 2015, HR were able to put Eighty-Eight e-learning curriculums into the systems to meet the Professional/Technical development needs which provided flexible learning options.

In order to foster the culture of Innovation, we established a 3F (Fusion, Fission & Focus Reactor) Innovation Center to allow employee's idea sparkling and Brain Storming sessions to take place.

TALENT RETENTION

HR explores all the innovative ways to retain the key Talent within our organization. Key talent were assessed, identified then follow-up with immediate retention scheme which includes Long Term Incentive plan and Stock Option granting. Employee Care programs were deployed which includes the support of the Shanghai Residence Permit application, Annual Health Screen, as well as on-site Gym, Sports events all demonstrate we are committed to provide an "Employee Care" environment.

PROSPECT

The medical devices market in the PRC has been growing rapidly with the development of natural economic and government investment in social medical insurance, which attracts more and more multinational corporations to enter this market. In order to compete in this fast growing market, we will continuously perform proactive strategies, including but not limited to:

1. Further strengthen our leading position in domestic medical devices market

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

2. Deepen our internationalization

After the acquisition of OrthoRecon business from Wright Medical, the Company became an international medical company, and expected to realize globalization of multi-points and multi centers. In 2016, we will strive to further absorb the achievements of globalization, investigate market demand and exploit international market, and at the same time deepen its operation in Chinese market with the vision of globalization. Furthermore, we will introduce advanced medical devices through establishing network and sales channel, accumulating experience, resources and reputations.

3. Diversification of existing and new products through innovation

We will further introduce innovative products to diversify our product offering and provide a comprehensive portfolio of medical devices to physician and patients. Accordingly, we expect to generate revenue from the sales of diversified products lines going forward.

4. Developing and improving our existing products

We will further develop and improve the performance and manufacturing craft of our existing products. We have extensive R&D activities aimed at developing new generation of our existing products.

5. Promoting reform of management system

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

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2015 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

CORPORATE GOVERNANCE PRACTICES

The Group 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 2015, the Company complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the exceptions of Code Provision A.2.1 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, which 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.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three members:

Mr. Jonathan H. Chou *(Chairman)*
Mr. Norihiro Ashida
Mr. Zezhao Hua

The Company established an audit committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code. Two of the members are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

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

The Audit Committee oversees the internal control system 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 2015, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for transactions in the Company's securities throughout the financial year ended 31 December 2015.

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.

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

Pursuant to a share award scheme approved by the Board on 26 August 2011, the Company purchased, through the trustee of the share award scheme, a total of 4,567,000 shares of the Company at cash consideration of US$2,441,000 on the Stock Exchange for the year ended 31 December 2015.

Save and except for the above, 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 2015.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Company did not have any material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2015.

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 2015 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.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on 27 June 2016. The notice of AGM will be sent to Shareholders at least 20 clear business days before AGM.

FINAL DIVIDEND

The Board do not recommend the payment of final dividend for the financial year ended 31 December 2015 (2014: nil).

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 Friday, 24 June 2016 to Monday, 27 June 2016, 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 Service Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 23 June 2016.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company at http://www.microport.com.cn and the Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk. The 2015 annual report of the Company will be despatched to Shareholders in due course and will also be available at the websites above at the same time.

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

Shanghai, the People's Republic of China, 29 March 2016

As at the date of this announcement, the executive Director is Dr. Zhaohua Chang; the non-executive Directors are Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji, Ms. Weiwei Chen, and Ms. Janine Junyuan Feng; and the independent non-executive Directors are Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu.