2014

ANNUAL REPORT

MicroPort

MicroPort Scientific Corporation

微創醫療科學有限公司

(於開曼群島註冊成立的有限公司)
(incorporated in the Cayman Islands with limited liability)

(股份代碼 Stock Code: 00853)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTOR

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

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen *(Appointed on 30 June 2014)*
Mr. Ganjin Chen *(Resigned on 11 June 2014)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Zezhao Hua

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Dr. Zhaohua Chang
Ms. Yee Har Susan Lo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Zezhao Hua *(Chairman)*
Dr. Guoen Liu
Ms. Weiwei Chen *(Appointed on 30 June 2014)*
Mr. Ganjin Chen *(Resigned on 11 June 2014)*

REGISTERED OFFICE

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

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

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

PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

KPMG, *Certified Public Accountants*

COMPLIANCE ADVISOR

TC Capital Asia Limited

SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPANY WEBSITE

www.microport.com.cn

PRINCIPAL BANKERS

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

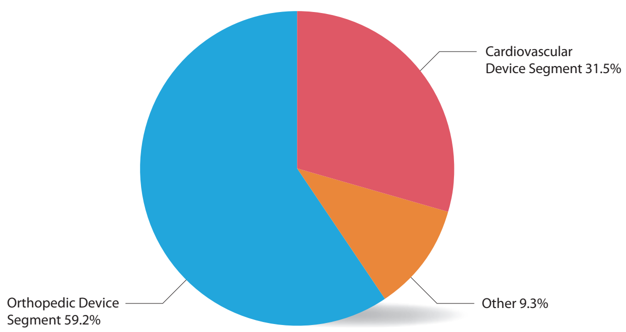
FINANCIAL SUMMARY

	Financial Year Ended		
	2014 US$'000	2013 US$'000	Change %
Revenue	355,284	151,655	134.27
Gross Profit	243,285	122,878	97.99
(Loss)/profit for the year	(59,571)	23,997	-348.24
(Loss)/earnings per share –			
Basic (in cents)	(4.22)	1.71	-346.78
Diluted (in cents)	(4.27)	1.67	-355.69

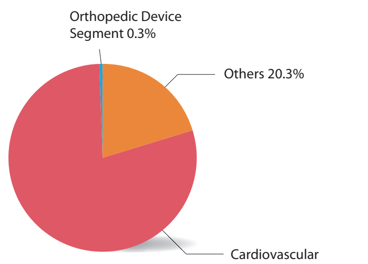
Revenue Analysis

By Product

For the Year Ended 31 December 2014

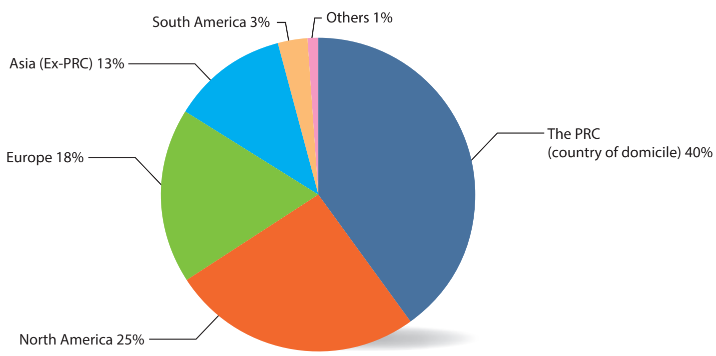


For the Year Ended 31 December 2013



Orthopedic Device Segment Cardiovascular Device Segment Other

By Geographical region



FIVE YEARS' FINANCIAL SUMMARY

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Revenue	355,284	151,655	147,517	130,316	107,542
Net(loss)/profit	(59,571)	23,997	56,090	49,786	35,482
Non-current assets	431,622	219,043	168,946	90,326	46,323
Current assets	508,112	299,803	255,504	281,716	281,888
Total assets	939,734	518,846	424,450	372,042	328,211
Liabilities					
Current Liabilities	328,032	77,997	32,546	24,430	24,680
Non-current Liabilities	267,959	50,416	22,820	11,921	5,967
Total Liabilities	595,991	128,413	55,366	36,351	30,647
Total Equity	343,743	390,433	369,084	335,691	297,564

OUR COMPANY

MicroPort Scientific Corporation ("Company" or "MicroPort") is making the world a better place one patient at a time. In fact, for every 20 seconds that pass, on average, one patient somewhere in the world has life-saving, or quality of life improving medical intervention, using MicroPort products.

Our Company is all about improving human life through the practical application of innovative science. And our aim is to continually develop leading technologies and products for physicians, with life-saving solutions and treatments for patients. We are a young company with an ambition to establish MicroPort as a globally recognised brand name. Yet as the business grows, we strive to retain our unique entrepreneurial spirit. We continue to demonstrate entrepreneurial achievement and innovation coupled with our commitment to improving the social wellbeing.

We work in close cooperation with recognised international physicians and scientists worldwide, to develop a range of products that meet the highest quality and clinical standards. We develop, and produce an ever diversifying portfolio of products which cover a wide range of business segments including Orthopedic Devices, Cardiovascular Devices, Endovascular Devices, Electrophysiological ("EP") Devices, Neurovascular Devices, Surgical Management, Diabetes Care and Endocrinal Management, and others. We are dedicated to making a patient oriented global enterprise focusing on minimally invasive and other emerging medical technologies.

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

Today our products are used to save lives and improve patient health in hospitals throughout China and we export our products to regions all over the world, including the United States ("U.S.") and Europe. Our Company has a large and growing intellectual property portfolio and the strongest research and development ("R&D") team.

The applied expertise of our R&D team ensures our latest products are always innovative, as we strive to provide state of the art medical technologies and deliver the next generation of medical devices and treatments for chronic ailments. Central to this innovative approach is the inspiration provided by nature and our appreciation for the beauty of human biology.

And it is our commercial achievements that enable us to give something back to the society which makes our success possible. Our commitment to social engagement and responsibility is an important aspect of our company culture and philosophy. MicroPort works diligently to build strong relationships with all our international partners and all our stakeholders, because as a corporation, we think our community is an essential part of our business, and we strive to help in the best ways we can.

OUR VISION

"Dedicated People Striving to Make a Patient Oriented Global Enterprise Focusing on Minimally Invasive and Other Emerging Medical Technologies"

OUR MISSION

"To improve longevity and quality of life by constant innovation and commercializing the best and most affordable therapeutic solutions"

CHAIRMAN'S STATEMENT

Dr. Zhaohua Chang
Chairman

Dear Shareholders,

The year of 2014 marks a significant milestone in MicroPort's journey, as we have achieved the realization of a fantastic product pipeline and have taken solid steps towards expanding to new overseas markets.

At the beginning of 2014, we took a giant step forward in innovation with the launch of our Firehawk® drug eluting stent ("DES") ("Firehawk") in China. We stepped out into the international markets, successfully partnering with the Sorin Group (Reuters Code: SORN.M1) ("Sorin") for pacemakers and implantable cardioverter defibrillator devices. And, we became a truly global corporation with our acquisition of Wright Medical Group, Inc's (NASDAQ: WMGI) ("Wright Medical") OrthoRecon business.

We feel very proud as we begin to bear fruit this year, the result of our many years of planning, hard work, and commitment. Firehawk is strengthening our leading position in the field of coronary intervention in interventional cardiology and will be significant for building our presence in the international markets after it gained CE mark approval in January, 2015. MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM") started its operations last year in the field of cardiac rhythm management, and made its first sales in China during September 2014.

We are also achieving remarkable results with the MicroPort Orthopedics division, which has been exceeding expectations in completing its transition and establishing a strong MicroPort international brand. We are pleased that the entire global team of MicroPort Orthopedics managed to operate on a tighter budget to overcome significant distributor revenue losses as a result of transition. In particular, several MicroPort Orthopedics products have entered or are entering the China market and we are confident they will gain higher market recognition and help drive our revenue and profit growth in the future.

With these favourable results, we have the confidence and strength to take MicroPort into a bright new era of greater achievements on a global scale, in spite of the seemingly discouraging financial performance for last year.

We must recognise that MicroPort's business continues to face a challenging and turbulent economic environment in China and rest of the world, industry-wide continuous pricing pressure and on-going market softness. According to official figures, China's economy grew at its slowest pace in 24 years in 2014. And given its size, China has an outsized effect on the world. The recovery of the global economy has been slow and halting, hampered by stagnation in Europe and Japan as well as China's decelerating growth.

Looking forward, as we strive to take MicroPort into a new era of growth and success, there is no doubt in my mind that there are many challenges ahead of us. But as a strong team of dedicated people, I believe MicroPort can achieve all of our goals.

In 2015, the MicroPort management team will focus on further diversifying our product pipeline, smoothing integration of the Group, enhancing operational efficiency and delivering greater fiscal prudence with a focus on increased budget responsibility, accountability and credibility.

In this new year, we are presented with amazing opportunities to deliver life-saving medical devices to more patients. With MicroPort products improving the lives of millions more people around the world, we are striving to build our MicroPort brand, so that it becomes synonymous for quality, innovation and above all integrity worldwide.

Dr. Zhaohua Chang
Chairman

Shanghai, 31 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

OVERVIEW

We are a leading medical technology company that develops, manufactures and sells high-end interventional medical devices. MicroPort currently represents the primary operation of the business, with interests in innovating, manufacturing, and marketing high quality and yet affordable high-end medical devices. An ever diversifying portfolio of products, now being used at an average rate of one for every 20 seconds in over 3,500 major hospitals throughout China and around 30 other countries in the Asia Pacific region (excluding the PRC), South America and Europe, cover a wide spectrum of disease types such as cardiovascular, neurovascular, endovascular, EP, orthopedic, surgical management, diabetes care and endocrinal management. MicroPort is dedicated to becoming a leading China-based global enterprise capable of providing the best medical devices products that are affordable and globally accessible to as many patients as possible.

On 10 January 2014, we completed the acquisition of the OrthoRecon business from Wright Medical. The acquisition established MicroPort Orthopedics as the fifth largest multinational hip and knee orthopedic reconstruction business in the World. The acquisition currently also represented the largest overseas M&A project in the Chinese medical devices industry. It is an opportunity for us to build upon 60 years of innovative leadership in the hip and knee industry of the Wright Medical OrthoRecon business to expand our orthopedics business segment and establish as a worldwide provider of effective and affordable orthopedics management solutions.

As of 31 December 2014, there were seven business segments, namely, orthopedic, cardiovascular, endovascular, EP, neurovascular, surgical management, and diabetes care and endocrinal management, which produce 178 kinds of products for sale.

For the year ended 31 December 2014, we derived 59.2% of our revenue from our orthopedic devices, 31.5% from our cardiovascular devices and 9.3% from other products. During the year of 2014, we further deepened the diversification of our business. Meanwhile, after the acquisition of OrthoRecon business, the situation of our excessive dependence on single flagship products in the Chinese market was greatly improved.

ORTHOPEDIC DEVICES

The orthopedic devices segment specialises in providing the full range of professional orthopedic product of artificial joints, spinal products, trauma products, sport medicine and other instruments and implants to serve the community better through our improving management, continuous innovation, struggling marketing and talents.

Following the acquisition of OrthoRecon business from Wright Medical in January 2014, MicroPort Orthopedics Inc. ("MPO") successfully transitioned into a business entity globally launching the MicroPort Orthopedics brand. MPO is committed to provide innovative and effective clinical solutions that support in hip and knee reconstruction surgeries. Products focus on minimally invasive and fast recovery which are two biggest trends in orthopedic society. There are 5 specialised product lines that make MPO stand out in the market.

1) SUPERPATH® MICRO POSTERIOR APPROACH TOTAL HIP RECONSTRUCTION TECHNIQUE

This technique is titled as an evolutional minimally invasive surgery ("MIS") total hip replacement approach nowadays. SuperPath® not only reduces the length of the skin incision, but more importantly, it minimises the critical tissue interfering during the surgery. The technique does not require joint capsule and external rotators resection. Therefore, a number of patients who have undergone this procedure are able to walk unassisted the day after surgery. It has been proven that SuperPath® has significant contribution to healthcare economics and patients' satisfaction.

2) BIOFOAM™ CANCELLOUS TITANIUM™, A NEW GENERATION TRABECULAR METAL TECHNOLOGY

BIOFOAM™ CANCELLOUS TITANIUM™ represents the newest generation in ingrowth fixation technology. This innovative material mimics natural trabecular architecture to ensure sustainable rigid fixation through natural ingrowth within a metallic implant that provides the long-term strength and stability required in today's orthopedic implants. The BIOFOAM™ CANCELLOUS TITANIUM™ metal is a versatile material that has been applied to several different clinical applications, as a fixation surface for total joint arthroplasty, and for correction of deformities and osteotomies. MicroPort has commercialised this technology with its ADVANCE® Total Knee System and DYNASTY® Acetabular Cup System.

3) EVOLUTION® MEDIAL PIVOT KNEE SYSTEM

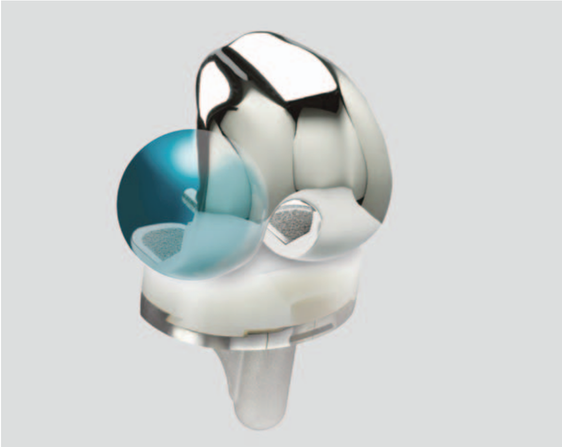
Medial Pivot Knee System was designed to solve instability of a total knee replacement surgery which is a leading cause of short-term total knee implant revisions. The design of the EVOLUTION® (as its previous version ADVANCE® System) was developed in conjunction with top knee surgeons in the United States. Medial-Pivot Knee System's proprietary ball-in-socket mechanism provides stability. Traditional total knee implants do not feature a ball-in-socket mechanism. Without ball-in-socket articulation, traditional knees can be less stable and more likely to slide forward during a patient's daily activities. This slide forward is commonly referred to as paradoxical motion. Paradoxical motion can even cause a patient's knee to exhibit noises such as pops, clicks, and clunks. Ball-in-socket knees have also been shown to produce a greater range of motion when compared to traditional posterior-stablised ("PS") knees and have a femoral rollback profile similar to the natural knee.

4) PROPHECY™ PRE-OPERATIVE NAVIGATION GUIDING SYSTEM

MicroPort Orthopedics' PROPHECY™ Pre-Operative Navigation Guides are intended to be used as surgical instrumentation to assist in the positioning of total knee replacement components intra-operatively and in guiding the marking of bone before cutting. The PROPHECY™ Pre-Operative Navigation Guides are intended for use with MicroPort Orthopedics' ADVANCE® and EVOLUTION® Total Knee Systems and their cleared indications for use, provided that anatomic landmarks necessary for alignment and positioning of the implant.

5) REPIPHYSIS® ONCOLOGY AUTO-EXPANDABLE ENDOPROSTHESIS

This implant is used for skeletally immature children with tumors involving the growth plate in the femur or tibia. The REPIPHYSIS® Implant is an expandable endoprosthesis that allows the surgeon to maintain equal limb length throughout the child's growth years. After REPIPHYSIS® technology is implanted, the expansions are noninvasive.



MANAGEMENT DISCUSSION AND ANALYSIS

2014 was the first year after we finished the acquisition of OrthoRecon business from Wright Medical, we committed ourselves to integration in products, marketing channels, as well as corporate culture. MPO worked with its Chinese orthopedic counterpart to enhance the availability and market for its products in China. In 2014, the acquired products ADVANCE® Artificial Knee system, PROPHECY® Pre-Operative Navigation System, Evolution® MP Adaptive CS&PS Insert, PROFEMUR® Classic Z Hip System, and PROFEMUR® Classic TL Hip System were successfully awarded registration certificates from China Food and Drug Administration ("CFDA"). With the CFDA registration certificates, the products were approved to be sold in the Chinese market, which was expected to stimulate the sales growth of our orthopedics business. During 2014, we added more than 50 new distribution partners in China. Meanwhile, we made efforts to publicise our acquired orthopedics products and technologies through a series of seminars and professional education activities, which made our products gain high recognition and influence among patients and surgeons, and would reinforce the brand image and increase market share of our orthopedics devices. Our SuperPath™ Hip Replacement Surgery was promoted to 12 hospitals in 7 provinces or cities, and 32 clinical surgeries were finished successfully. In 2014, we have trained over 700 surgeons with the "Integrity in Motion" educational events. Participating in the Chinese Orthopedic Society events, to promote safe and effective use of MPO products in surgeries. SuperPath was one of the focus as minimum invasive total hip arthoplasty ("THA") approach. MPO collaborated with Shanghai 10th Peoples Hospital, established a cadaver lab to further the educational course. In addition, our EVOLUTION® Medial-Pivot Knee System was officially launched in Hong Kong. As a result, the sales volume of our joints products realised rapid growth in 2014. We believe our world's advanced orthopedic products and technologies will be performed by a growing number of trained surgeons and thereby provide more patients with better solutions for orthopedic diseases.

Except for the initial loss of several North American sales representatives, MPO was otherwise successful in securing its global distribution network and in executing its initial 100-day transition plan with no significant issues. MPO's network of independent distributors in the U.S. was also able to attract new sales representatives to represent MPO products during 2014. MPO also reinvigorated the R&D group and clinical investigations group during 2014. Another key priority for MPO during 2014 was revitalising the MPO employee base and developing an entrepreneurial culture that will allow MPO to focus on growth for the future.

Meanwhile, our internally developed orthopedic devices also made extraordinary achievements. Following the Reindeer™ Metal Locking Plates System ("Reindeer™") was approved for market launch by CFDA in March 2014, our Futago™ Lumbar & Thoracic Fusion Device ("Futago™") gained CFDA registration certificate in March 2015.

There will be a great deal of investment in 2015 and work toward streamlining the MPO business in 2015. Our Orthopedic business should be in a position to begin delivering growth in 2015.

CARDIOVASCULAR DEVICES

The cardiovascular devices segment includes therapies to treat coronary artery disease. We develop, manufacture and sell coronary stents and related delivery systems, along with balloon catheters and accessories.

2014 was a challenging year for our cardiovascular business, as the emerging of more manufacturers made the competition in the Chinese market increasingly more fierce. Nevertheless, with our high quality products and over 16 years' experiences in cardiovascular devices market, we successfully maintained our leading position in the cardiovascular devices market in the PRC in 2014. There were in total about 200,000 coronary stents and about 15,000 balloon catheters delivered.

Our high quality product offering, mainly attributed by our Firebird2™ Rapamycin-Eluting CoCr Coronary Stent ("Firebird2"), has enabled us to be in the leading position of the cardiovascular devices market in the PRC. The Firebird2, our second-generation coronary stent, continuously remained as the top selling product of the Company in 2014. The Firebird serial stents have held the leading position for ten consecutive years in the Chinese market.

Our independently developed WALTZ CoCr Coronary Stent System ("WALTZ") is the platform for FireBird2 and is designed for the treatment of ischemic heart disease. It consists of a L605 cobalt-based alloy stent and a delivery system. On 21 February 2014, WALTZ gained CE certification.

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. The applied targeted eluting technology allows Firehawk to achieve the same clinical efficacy as other traditional DES with only 1/3 dosage of the drug, and therefore greatly improving the safety of Firehawk DES while maintaining its excellent efficacy. Targeted eluting technology is the key milestone of DES technology's research and development. We have spent almost eight years on R&D to make Firehawk the lowest drug dosage DES in the world. Firehawk combines all the advantages of DES and bare metal stents. It represents a major leap forward, transforming our DES offering from a market follower to leader in this segment.

Firehawk was approved for market launch by the CFDA on 28 January 2014, and 24 specifications were approved by the CFDA to be added afterwards. As of 31 December 2014, Firehawk has been used in 60 hospitals in 17 provinces/cities of China. On 23 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, and will further propel the Group towards becoming a global medical devices provider. Based on the existing clinical study on Firehawk, we'll also carry out a large randomised trial in Europe-TARGET All Comer trial to further study the clinical results of Firehawk.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2014, we continuously devoted our resources to the R&D of biodegradable DES, which is expected to be degraded gradually and finally absorbed completely by the vascular tissues after being implanted for a period of time, so that the vascular structure and the functions of relaxation and contraction could restore to natural situation and thereby related potential risks could be evaded. The biodegradable DES will mark another milestone of development of interventional therapy of coronary artery diseases. Up to date, the R&D process has run smoothly, experiments on animals were finished and the results testified a high standard of safety of the product. In 2015, the first in man clinical experiment is scheduled to be launched. As an important supplement of metal coronary stent, the biodegradable DES will further enrich the pipeline of the Company's cardiovascular devices.

Furthermore, on 20 January 2014, we entered into a definitive agreement with Cordis Corporation ("Cordis") pursuant to which we will acquire certain assets, divested entities and a license to certain intellectual properties related to DES of Cordis. The acquired assets include equipment and machinery related to DES manufacturing, as well as certain DES-related patents and other intellectual properties. The divested entities from Cordis consist of the entities known as Conor Medsystems. In addition, we have entered into a non-exclusive license with Cordis for worldwide rights to certain of Cordis' DES patents and related intellectual properties. Through the acquisition of assets, we will secure the position of being the global leader for targeted eluting coronary stent technology which is the cornerstone technology for our third generation DES product, Firehawk, and we will take another step forward to strengthen the competitive and intellectual property position for our DES franchise.

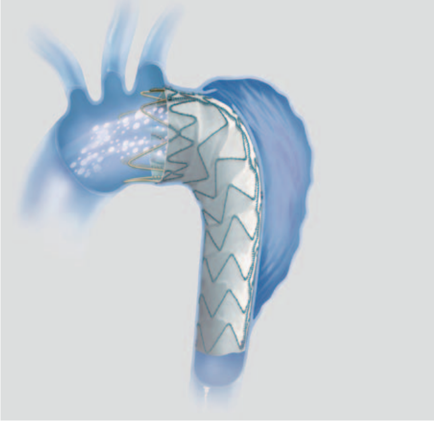
ENDOVASCULAR DEVICES

Our endovascular devices segment is comprised of a line of products and therapies to treat abdominal and thoracic aortic aneurysms and peripheral vascular disease. In addition to our cardiovascular line of products, our endovascular devices segment offers a range of other vascular stents to treat endovascular diseases and disorders. As of 31 December 2014, the product categories of endovascular devices include AAA/TAA Stent Graft System (Hercules™-T, Hercules™-B and Aegis™), Hercules Balloon Dilation Catheter (Hercules™ Balloon Dilation Catheter), Surgical Stent Graft System (CRONUS™) and Peripheral Stent System (CROWNUS®).

10.2%

The sales increased 10.2% compared to the prior fiscal year.

In 2014, our new generation branched thoracic aortic aneurysm (TAA) stent graft and delivery system ("Castor") was clinically implanted successfully, and the publicly released six months' clinical follow-up data testified the safety and efficacy of the product in treatment of thoracic aortic dissecting aneurysms. Compared with other branches of stent-grafts under development, Castor has less endoleak and better branch artery patency. It also features kink-free outer sheath, arch-passing ability, soft membrane as well as soft cap with branch stent cramped in. The clinical trial of Castor stent graft system is the world's first prospective and multi-center clinical study. In August 2014, Castor was listed in Shanghai Biomedical Industrialization Project 2014, and in November 2014, it was successfully selected as one project of the National Key Technology R&D Program for China's 12th Five-Year Plan, which showed that the internally innovative product had been primarily recognised by domestic medical professionals.



The internally developed Ultra Low Profile AAA Stent-Graft System ("Ultra Low Profile") abdominal aortic stent was our new generation product for the endovascular treatment of abdominal aortic aneurysm with an outer sheath of delivery system as low as 14F in China, which marked a new era for endovascular therapy of abdominal aneurysm in China. In 2014, Ultra Low Profile abdominal aortic stent was first implanted into a Chinese patient, which marked starting of pre-market research on its safety and efficacy and expected to benefit more patients in the near future. In addition, the internally developed first generation peripheral balloon catheter system, Reewarm18 peripheral balloon catheter, also completed its first clinical implantation. This product enriched the Company's invasive products line and laid foundation for establishment of peripheral products.

In 2014, the Company gained new CFDA registration certificates of four products – Hercules™ Bifurcated Stent-Graft System, Hercules™ Balloon Inflation Catheter, CRONUS™ Stent Graft System in Surgical Operation and CROWNUS™ Peripheral Stent System. In addition, we also applied for CE certification of Hercules™ Balloon Inflation Catheter.

In 2014, CRONUS™ Stent Graft System was granted the second prize of scientific and technological achievements by Pudong New Area Science and Technology Commission of Shanghai Municipality. CRONUS is one-of-a-kind in China and currently has 100% market share. It has been widely recognised by the medical industry and significantly improved the quality of surgical treatment of complex aortic disections.

For the fiscal year 2014, our endovascular devices business enjoyed a healthy growth. The sales increased by 10.2% compared to the prior fiscal year.

ELECTROPHYSIOLOGICAL DEVICES

The primary focus of the EP devices segment is on the development, manufacture, and marketing of minimally invasive medical devices for the treatment of electrophysiological diseases.

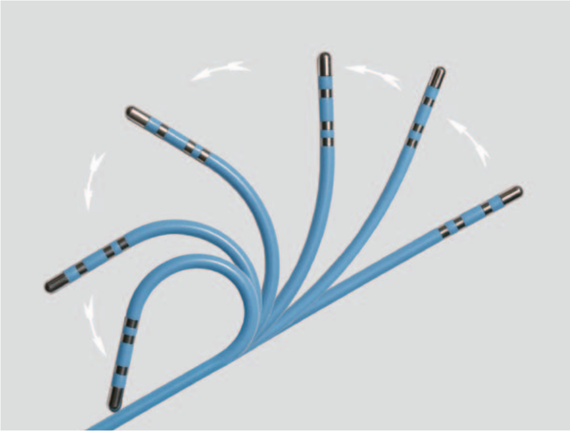
Remarkable accomplishment has been made by our EP devices segment in market exploitation and sales in the year of 2014. The following six products which are FireMagic™ radiofrequency ablation catheter ("FireMagic"), EasyFinder™ fixed or adjustable curved mapping catheter ("EasyFinder"), EasyLoop™ circumferential pulmonary vein mapping catheter ("EasyLoop"), FireMagic™ 3D ("FireMagic 3D") saline infusion radiofrequency ablation catheter, Columbus™ Three-dimensional EP Navigation System ("Columbus") and External Reference Patch received CE certificate in 2013, and several products have been distributed in Dominican Republic and Greece. Clinical trials were conducted in hospitals of Turkey, Germany, and France with good feedback, which laid solid foundation for the EP devices products penetrating into the international market.

In the domestic market, our EP devices segment achieved its 2014 annual sale targets with a marked growth compared with that of 2013. Both the number of hospitals covered and number of agents increased greatly.

The EP devices segment finished the multi-center clinical trial follow up for the FireMagic 3D and Columbus in 2014, and will submit the application for CFDA registration in 2015.

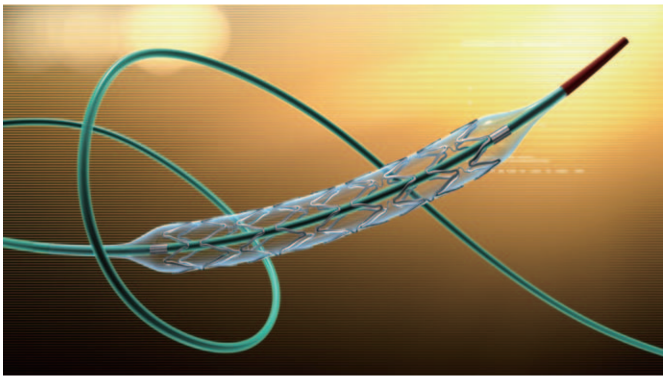
60.0%

The sales increased 60.0% compared to the prior fiscal year.



36.9%

The sales increased 36.9% compared to the prior fiscal year.



NEUROVASCULAR DEVICES

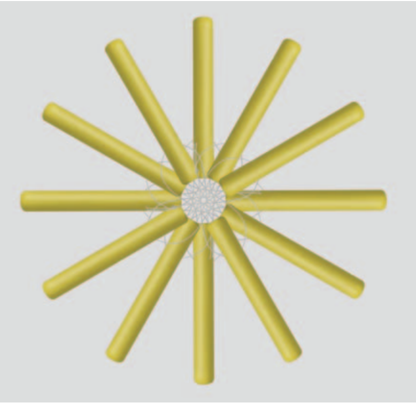
The neurovascular devices segment specialises in developing, manufacturing and marketing the medical devices in treating the central nervous system related vascular diseases.

For the fiscal year 2014, the segment of neurovascular devices developed stably and made continuous profit with sales increase of 36.9%, which was mainly attributed to the sales of WILLIS® Intracranial Stent Graft System ("WILLIS"), the first Chinese designed and manufactured stent for the treatment of intracranial aneurysms. WILLIS represents China's highest priced domestic consumable material and it wins market acceptance through innovation for domestic medical devices. In 2014, a project based on the clinical application of WILLIS was granted a national award, which proved the superior efficacy of WILLIS. In addition, WILLIS was granted "Shanghai Innovative Product" by Shanghai Municipal Committee of Economy and Informatization, Shanghai Municipal Finance Bureau and Shanghai Intellectual Property Administration.

In 2014, WILLIS products were clinically applied in 23 Chinese provinces/cities, where 86 hospitals were newly exploited.

MANAGEMENT DISCUSSION AND ANALYSIS

SURGICAL MANAGEMENT



The surgical management segment specialises in extracorporeal circulation and cardiovascular-related devices. The products of surgical management include Membrane Oxygenation System, Amender™ PDA Occluder and Amender™ ASD Occluder, which were produced by the wholly owned subsidiary of Shanghai MicroPort Medical (Group) Co., Ltd., Dongguan Kewei Medical Co., Ltd. ("Dongguan Kewei").

2014 is the third year after the acquisition of Dongguan Kewei. We committed in management adjustment, sales mode conversion, and business restructuring of it.

In 2014, Dongguan Kewei made a great breakthrough in R&D. The main technological indexes of the second generation membrane oxygenation system products reached or surpassed similar products in the world market. Clinical trial on arterial shunt thrombus was launched. The R&D and industrialisation project of new generation membrane oxygenation system was selected to be a major special project of Dongguan in 2014, and was expected to gain government funding of RMB10 million. In the year 2014, Dongguan Kewei made great achievement in exploitation of overseas markets. The products was exported to Saudi Arabia, Kazakhstan, Brazil, and so on. In 2014, a total of 23 process improvement projects were finished which was expected to save costs of RMB1.7 million and improve processing efficiency by over 40%.

On 19 December, Dongguan Kewei gained a registration certificate for its occlude delivery system from CFDA. This is our first occlude delivery system that received registration certificate, which is expected to promote the sales of our Amender™ ASD Occluder.

In 2014, due to the fierce market competition as well as our restructuring and adjustment, the revenue of the surgical business declined by 32.6% compared with that of 2013. We'll make efforts to enrich our products pipeline to actively address challenges, and have the confidence of making improvements in 2015.

11.1%

The sales increased 11.1% compared to the prior fiscal year.

DIABETES CARE AND ENDOCRINAL MANAGEMENT

The primary focus of the diabetes care and endocrinal segment is on the development, manufacture, monitoring and management of medical devices for the treatment of diabetes and endocrinal. 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 2014, La Fenice® Hypophyseal Hormone Infusion Pump was awarded high-tech project by Science and Technology Commission of Shanghai Municipality.

In the fiscal year of 2014, the revenue of diabetes care and endocrinal segment increased stably by 11.1% compared with that of 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

JOINT VENTURES

In early 2014, we entered into a definitive agreement with Sorin to form a joint venture to market and develop CRM devices, including implantable pacemakers, defibrillators, cardiac resynchronisation devices and related devices in China. According to the agreement, a total of RMB122,000,000 would be invested to the joint venture by the Group and Sorin to hold 51% and 49% stake respectively. The two companies will collaborate, through the joint venture, on the import, sale and service of Sorin's CRM devices in China and, in parallel, in accelerating the development of locally manufactured and developed CRM products for the China market. Significant engineering and development resources from both parties will transit to the joint venture immediately. We expect to leverage complementary strength of both companies to quickly penetrate the fast growing CRM market in China.

On 20 May 2014, the joint venture was formally founded with obtaining of the business license issued by Shanghai Industrial and Commercial Bureau, and on 5 November 2014, the joint venture was renamed to be MicroPort Sorin CRM (Shanghai) Co., Ltd. (創領心律管理醫療器械(上海)有限公司). A company launch ceremony was held during the CSPE (Chinese Society of Pacing & Electrophysiology) Conference in Wuhan in September 2014, with attendance of hundreds of physicians as well as the leadership of MicroPort and Sorin. And in mid-September 2014, the joint venture successfully sold its first batch of pacemakers (a small device that doctors place in people with an abnormal heartbeat), which launched the joint venture's way of offering health solutions to patients.

RESEARCH AND DEVELOPMENT

Keep in mind that R&D is the drive and motivation of our future growth, we continue to not only invest in our in-house R&D capability but also positively cooperate with international technology pioneer. As of 31 December 2014, there are about 60 R&D projects under progress and over 460 high skilled employees serving for our in-house R&D team.

In 2014, the R&D projects of the Company ran smoothly and made great breakthroughs. The Company was awarded "Excellent Unit in Establishment of Academician and Experts Work Station".

In May 2014, MicroPort Engineering Research & Engineering Academy was formally founded, which marked that the Company made a crucial step in scientific and technological innovation, and provided strong technological support for R&D of the Company.

In April 2014, the Company's new project team of surgical robot was initiated, and by the end of the year, great breakthrough was made on several key technologies in R&D of the first generation sample machine, which laid good foundation for subsequent stabilisation and perfection of surgical robot system technology.

R&D activities in hip and knee reconstruction have continued to develop technology and procedures aimed at improving product function and patient satisfaction. Efforts continue in the areas of advanced bearing and fixation surfaces aimed at improving the clinical performance of joint reconstruction devices. Further, MicroPort Orthopedics has continued to develop and optimise tissue sparing procedures and instruments that allow patients to quickly return to function and resume their daily activities while decreasing the time and cost requirements of the surgical facility.

On 24 September 2014, the Company successfully completed the first human implantation of its in-house developed artificial aortic heart valve in Shanghai Zhongshan Hospital. The aortic valve was implanted using a revolutionary interventional procedure that doesn't need to open the patient's chest. The procedure, called Transcatheter Aortic Valve Replacement ("TAVR"), works in a similar way to heart stent implantation – the interventional cardiologist uses a catheter to deliver a collapsible valve to heart and makes the new valve expand to take over the job of regulating blood flow. With less pain and faster recovery, TAVR could bring better experience for patients in most cases. The first successful implantation also marks that MicroPort's research and development ability has reached a new level. MicroPort will continue its clinical trial of the independently developed Transcatheter Aortic Valve in leading hospitals across China in the next two to three years to ensure its safety and efficacy.

MANUFACTURING

In 2014, the Company continued its efforts on optimising supply chain, improving production technology, shortening production cycle, and maintaining safety in production.

On supply chain optimisation, the Company has been devoted to improving quality of raw material and controlling raw material inventory. In 2014, the reject rate of the purchased material was reduced to 3%, and the on time delivery rate reached 99%, which guaranteed the stable production of the Company with sufficient raw material supply.

On manufacturing process, we further streamlined and optimised the production system, reduced non value-added work, shortened production cycle and improved production efficiency through analysis on value stream mapping. For example, through production value stream analysis and continuous improvement, the production cycle time was reduced by 13.7% to 17.6 days (2013: 20.4 days); the efficiency of the production was raised by 7.4% to 1.30 unit-hour/person (2013: 1.21 unit-hour/person).

On 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 2014, there were no major safety accidents in the Company, and the Company passed all government inspections on environment protection, safety supervision, and fire prevention.

QUALITY ASSURANCE

Quality is always the foundation of our products. In 2014, we continued to perform strict control over and strive to improve our quality system. In the first half of 2014, we conducted products compliance check on 10 subsidiaries, which covered all the products contained in over 100 registration certificates. In the second half of 2014, the Company continued to propel the appraisal work on maturity of the quality management system, and facilitate common development and improvement of quality management system of all the subsidiaries.

As for MicroPort Orthopedics, the base of our orthopedics business situated in Arlington, Tennessee, U.S. 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). MicroPort Orthopedics, as a medical devices manufacturer, 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 for 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 the domestic medical devices market and keep on expanding abroad.

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 our intellectual property. We strive to provide the highest quality medical devices and excellent service and create a unique company that is a recognised "Global Brand Belonging to Patients and Doctors". We also seek to aggressively protect innovation and technology by patents and trade secrets both domestically and in significant foreign markets.

In 2014, we filed 139 patent applications and gained 81 patents. We also filed 291 trademark applications and gained 91 reiterated trademarks respectively in 64 countries. Besides, we gained 468 patents and patent applications, and 223 trademarks through acquisition.

In 2014, our "微創" and "MicroPort" trademarks were both recognised as "China's Well-known Trademark". Furthermore, the Company was awarded the first batch "National Superior Intellectual Property Enterprise".

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

OVERVIEW

Facing a challenging economic environment in China and the rest of the World, continuous pricing pressure industry-wide and on-going market sluggishness, we have successfully diversified our current product offering and turnover sources with the result of 134% growth in turnover in 2014, and we have greatly expanded our geographic coverage and enhanced our presence outside China with the result of non-China sales contribution increasing from 4% for the year ended 31 December 2013 to 60% for the year ended 31 December 2014.

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

TURNOVER

The following discussion is based on our seven major business segments. For the year ended 31 December 2014, we have turnover of approximately US$355.3 million, and a 134% increase compared to the turnover of approximately US$151.7 million for the year ended 31 December 2013. Such increase was primarily attributable to the increase of the sales of orthopedics devices arising from the acquisition of the OrthoRecon business.

– ORTHOPEDIC DEVICES SEGMENT

Our orthopedic devices segment generated revenue of US$210.4 million for the year ended 31 December 2014, with a significant increase as compared to US$0.4 million for the year ended 31 December 2013. Such great increase was mainly attributed to (i) the acquisition of the OrthoRecon business from Wright Medical, which made the orthopedic business of the Group become the fifth largest multinational hip and knee orthopedic reconstruction business in the World; (ii) the orthopedic sales in China market increased more than 17 times.

– CARDIOVASCULAR DEVICES SEGMENT

Our cardiovascular devices segment generated revenue of US$111.9 million for the year ended 31 December 2014, with a decrease of 7.1% compared to US$120.4 million for the year ended 31 December 2013. Such revenue decrease was mainly attributable to the slowdown of Firebird2 sales in preparation for the launch plan of Firehawk. Nevertheless, we are still among the domestic leading suppliers of DES in 2014.

– ENDOVASCULAR DEVICES SEGMENT

Our endovascular devices segment generated revenue of US$14.1 million for the year ended 31 December 2014, with an increase of 10.2% compared to US$12.8 million for the year ended 31 December 2013. Such growth was mainly attributed to the organic growth of Thoracic Aortic Aneurysm (“TAA”)/Abdominal Aortic Aneurysm (“AAA”) Stent Graft Systems and Surgical Stent Graft System with higher market recognition.

– EP DEVICES SEGMENT

Our EP devices segment generated revenue of US$4.8 million for the year ended 31 December 2014, with an increase of 60.0% compared to US$3.0 million for the year ended 31 December 2013. We are pleased with the financial performance of our EP devices. Such significant increase was mainly attributable to (i) our EP devices successfully launched in the international CE market this year, especially from the Columbus 3D system; (ii) our EP devices have obtained further affirmation in China.

- **NEUROVASCULAR DEVICES SEGMENT**

  Our neurovascular devices segment generated revenue of US$6.3 million for the year ended 31 December 2014, with an increase of 36.9% compared to US$4.6 million for the year ended 31 December 2013. Such growth was mainly attributable to the successful launching of our new product WILLIS® since May 2013.

- **SURGICAL MANAGEMENT SEGMENT**

  Our surgical management segment generated revenue of US$5.8 million, respectively, for the year ended 31 December 2014, with a decrease of 32.6% compared to US$8.6 million for the year ended 31 December 2013. The decrease was mainly attributed to the impact of reform of sales model during 2014.

- **DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT**

  Our diabetes care and endocrinal management segment generated revenue of US$2.0 million for the year ended 31 December 2014, with an increase of 11.1% compared to US$1.8 million for the year ended 31 December 2013. The growth was mainly attributed to the steady increased sales of pump consumables with more La Fenice® insulin pumps and GnRH pumps in the market.

COST OF SALES

For the year ended 31 December 2014, our cost of sales was US$112.0 million, representing a 288.9% increase as compared to US$28.8 million for the year ended 31 December 2013. Such increase was primarily attributable to the increased cost of the OrthoRecon business in line with the increased sales, which was acquired in January 2014 and consolidated in the current year.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, gross profit increased by 98.0% from US$122.9 million for the year ended 31 December 2013 to US$243.3 million for the year ended 31 December 2014. Gross profit margin is calculated as gross profit divided by turnover. Our gross profit margin decreased to 68.5% as compared to 81.0% for the year ended 31 December 2013. The decrement in gross profit margin for the year ended 31 December 2014 was mainly attributable to the newly acquired OrthoRecon business.

OTHER REVENUE AND OTHER NET INCOME

We had other revenue of US$10.1 million and other net income of US$1.9 million for the year ended 31 December 2014, while other revenue and other net income were US$7.1 million and US$0.2 million, respectively, for the year ended 31 December 2013. The increase in other revenue was caused by the increase in interest income, while the increase of other net income was primarily attributable to the change in fair value of embedded financial derivative in relation to the Otsuka Loans.

RESEARCH AND DEVELOPMENT COSTS

Our R&D costs increased by 87.0% from US$29.2 million for the year ended 31 December 2013 to US$54.6 million for the year ended 31 December 2014. The increase was primarily due to (i) the acquisition of the OrthoRecon business, which incurred R&D costs of US$18.2 million for the year ended 31 December 2014; and (ii) the increased input in new R&D projects.

DISTRIBUTION COSTS

Distribution costs increased by 421.9%, from US$25.6 million for the year ended 31 December 2013 to US$133.6 million for the year ended 31 December 2014. The increase was mainly attributed to (i) the acquisition of OrthoRecon business, which incurred distribution costs of US$101.6 million for the year ended 31 December 2014; (ii) the increased input in labor, meeting and exhibition in China.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 266.8% from US$19.3 million for the year ended 31 December 2013 to US$70.8 million for the year ended 31 December 2014. The increase was mainly attributable to (i) the acquisition of the OrthoRecon business, which incurred administrative expenses of US$45.7 million for the year ended 31 December 2014; (ii) the depreciation, office expenses and utility expenses increased due to the new headquarter building.

OTHER OPERATING COSTS

Other operating costs increased from US$21.9 million for the year ended 31 December 2013 to US$35.7 million for the year ended 31 December 2014. The increase was primarily due to the increase of goodwill impairment of US$20.0 million.

FINANCE COSTS

Finance costs increased from US$1.1 million for the year ended 31 December 2013 to US$13.0 million for the year ended 31 December 2014. The increase was mainly driven by the interest expense of interest-bearing borrowings and the convertible bonds, primarily for the acquisition of the OrthoRecon business.

INCOME TAX

Income tax decreased from US$9.2 million for the year ended 31 December 2013 to US$6.1 million for the year ended 31 December 2014. The decrease in the Group's income tax was primarily due to the decrease of profit before tax of the PRC subsidiaries. Income tax was primarily recognised from the profitable subsidiaries and no deferred tax assets was recognised for loss-making subsidiaries as of 31 December 2014.

NET (LOSS)/PROFIT

For the year ended 31 December 2014, the Group recorded a net loss of US$59.6 million, as compared with a net profit of US$24.0 million for the year ended 31 December 2013. Such decrease was primarily due to (i) the consolidation of the newly acquired OrthoRecon business which incurred a net loss of US$54.2 million, including transaction and transitional expenses of US$10.4 million; (ii) goodwill impairment of US$23.3 million for the year ended 31 December 2014; (iii) interest expense of US$13.0 million for the year ended 31 December 2014 for the interest-bearing borrowings made and the convertible bonds issued for the payment of the acquisition of the OrthoRecon business. Excluding the above impacts, the remaining business of the Group recorded a net profit of US$30.9 million for the year ended 31 December 2014.

INTANGIBLE ASSETS AND GOODWILL

The Group recorded an Impairment Loss on intangible assets and goodwill of US$24.3 million ("Impairment Loss") for the year ended 31 December 2014 (2013: US$3.8 million). The Impairment Loss relates to the intangible assets and goodwill recognised in prior years when the Company acquired various companies in its expansion plans. In light of increased market competition, there has been a general downward adjustment of revenue growth and profit margins 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 respective goodwill during 2014. The following outlines the causes within each business segment that led to the lowering of revenue growth and profit margins.

– ORTHOPEDICS DEVICES BUSINESS-OTHERS

The Impairment Loss for the orthopedics devices business – others segment arises from the poor performance of the trauma and spine segment, which excludes the OrthoRecon business. The impaired intangible assets and goodwill was recognised when the Company acquired Suzhou Health Medical Appliance Co., Ltd. ("Suzhou Health"). The decline in turnover growth and profits margins in relation to the orthopedic devices business – others segment, were contributed by a multitude of small factors with market competition as the key underlying factor. In the face of increased competition, the Group saw Suzhou Health not being able to win its bid to supply trauma and spine products in Jiangsu Province, the bidding results of which was announced in January 2015. Compounding the matter, the Reindeer™ Metal Locking Plates System, though obtained the CFDA certification in 2014, was delayed in its approval process leading to a delayed launch of its product. With a lower revenue and profit, the fair value of orthopedic devices business – others was written down to reflect a lower revenue growth and profit margin of this cash generating unit.

With the development and launch of new trauma and spine products under the orthopedic business segment, the sales to certain customers who used to purchase the old series of trauma and spine products from the Group have been worse than expected. As a result, an impairment provision of US$1,050,000 has been made to intangible assets and a corresponding impairment of goodwill is made to reduce the carrying value of orthopedic devices business – others to its recoverable amount as at 31 December 2014.

– CARDIOVASCULAR DEVICES BUSINESS

The Impairment Loss for the cardiovascular devices business arises from the write-off of the goodwill created when the Company acquired D-pulse Medical (Beijing) Co., Ltd. ("D-pulse"). The decline in turnover growth and profits of the cardiovascular devices segment was mainly due to the severe market competition from the emergence of new percutaneous transluminal coronary angioplasty ("PTCA") accessory manufacturers in the PRC. Furthermore, the exclusive agreement to distribute PTCA accessories from Goodman Co., Ltd ("Goodman") in the PRC by D-pulse expired in 2014 and the new distribution agreement only allows D-pulse to distribute Goodman's products in limited territories in the PRC.

As such, the carrying value of this cardiovascular devices business segment was already written down during the 2014 interim report of the Company by reducing the amount of goodwill associated with this business segment.

– SURGICAL MANAGEMENT BUSINESS

The decline in the fair value of surgical management business is mainly attributable to the changes in growth and forecast of Dongguan Kewei, which was acquired by the Company in 2012. This division faces not only local competition but also competition from international players. In light of such competition and an over saturation of the surgical management devices market in the PRC, coupled with a flat trend in the number of extracorporeal circulation operations, the Company acted swiftly to restructure the business, sales model and management team of Dongguan Kewei. Consequently, the resulting surgical management business although is expected to perform better than prior to its restructuring, but is still lower than its prior forecast before the aforesaid market competition dawned on the industry.

As a result, an impairment loss of approximately US$11.7 million had been recognised as the carrying value of Dongguan Kewei CGU was below its recoverable amount as at 31 December 2014.

– FINANCIAL IMPACT ON THE COMPANY

Although the Impairment Loss may seem significant, it has no cashflow impact or material impact on the future operations of the Group. The Company has already noted the challenges in each business segment and has already made improvements in each business segment to achieve their performance in the following financial year and will continue to strive for steady long term revenue and profit growth.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2014, we had US$215.6 million of cash and cash equivalent on hand, as compared to US$159.9 million as of 31 December 2013. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

Total borrowing of the Group as of 31 December 2014 was US$440.3 million, with an increase of US$388.7 million as compared to US$51.6 million as of 31 December 2013. As of 31 December 2014, the gearing ratio (calculated by dividing total loans, bank borrowings and bonds by total equity) of the Group increased to a high level of 128%, as compared to 13% as of 31 December 2013. Such change is primarily due to the drawdown of the Otsuka loans of US$200 million, the issuance of GIC convertible bonds of US$100 million and the drawndown of other interest-bearing borrowings, primarily for the payment of the acquisition of the OrthoRecon business of US$279 million for the year ended 31 December 2014.

WORKING CAPITAL

Our working capital (net current assets) as of 31 December 2014 was US$180.1 million, as compared to US$221.8 million as 31 December 2013.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from sales and purchases which give rises to receivables and payables that are denominated in a foreign currency (mainly US$ and Euro). The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Group to currency risk. For the year ended 31 December 2014, the Group recorded a net exchange loss of US$1.5 million, as compared to exchange gain US$0.03 million as of 31 December 2013. The Group does not employ any financial instruments for hedging purposes.

CAPITAL EXPENDITURE

In January 2014, the Group had additions in property, plant and equipment with fair value of US$94.9 million through the acquisition of the OrthoRecon business from Wright Medical. In addition, during the year, the Group's total capital expenditure amounted to approximately US$62.1 million, which was used in (i) construction of building; (ii) acquiring equipment and machinery; and (iii) capitalisation of R&D projects expenses.

ACQUISITION

On 10 January 2014, the Company completed the acquisition of the OrthoRecon business from Wright Medical Group, Inc. and the acquisition establishes MicroPort Orthopedics as the fifth largest multinational hip and knee orthopedic reconstruction business in the World.

CHARGE ON ASSETS

As of 31 December 2014, 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, Wright Japan, MicroPort Orthopedics SAS, MicroPort Orthopedics SRL, MicroPort Orthopedics NV, MicroPort Orthopedics Limited and MicroPort Orthopedics GmbH; and (iv) all rights, titles and interests in certain assets held by Wright Japan, with a total net book value of US$568.1 million for the purpose of securing the Otsuka Loan with a carrying value of US$197.5 million. The Group had pledged its manufactory building held for own use with a net book value of US$3.8 million and deposits with banks of US$0.1 million for the purpose of securing a long term loan with a carrying value of US$0.4 million. The Group had pledged its headquarter building held for own use and land use right with a net book value of US$76.7 million and US$4.9 million respectively for the purpose of securing a banking facility with a carrying value of US$17.8 million. The Group had pledged its time deposits of US$44.9 million for the purpose of securing a banking facility with a carry value of US$40.0 million.

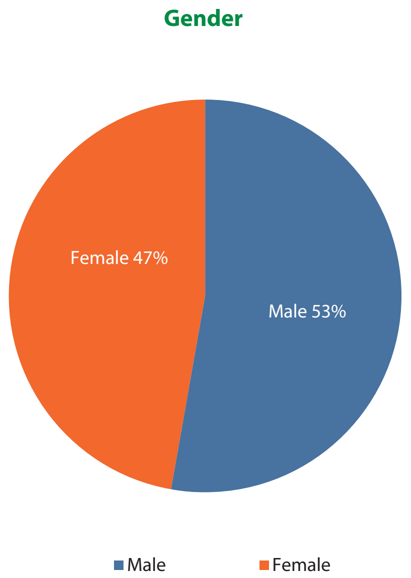
CONTINGENT LIABILITIES

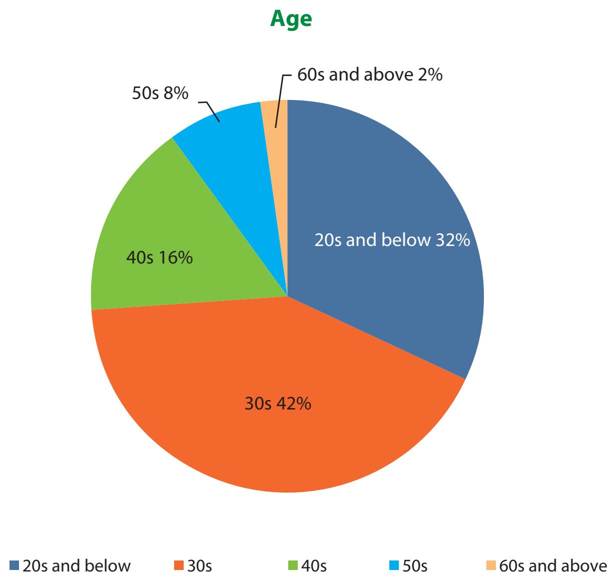
As of 31 December 2014, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

HUMAN RESOURCES

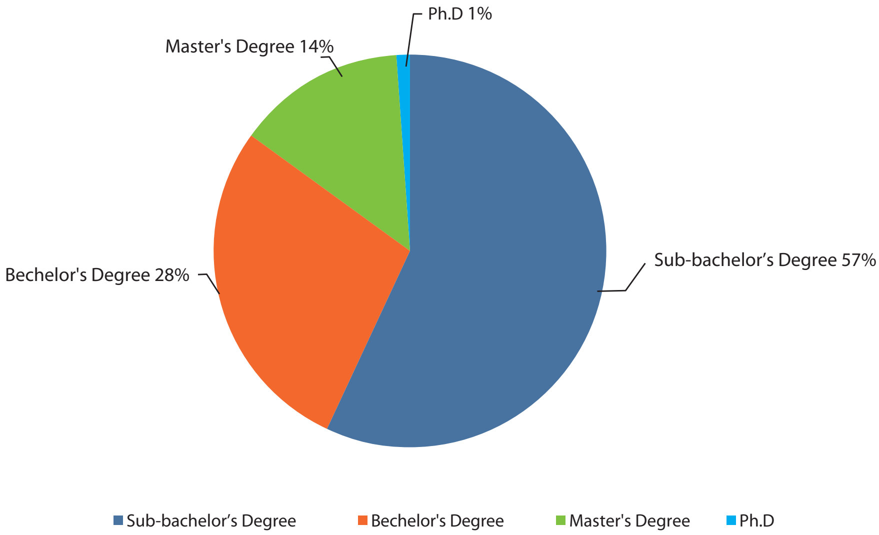
As of 31 December 2014, the Group employed approximately 2,903 employees, as compared to 1,896 employees as of 31 December 2013. The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

Headcount Information





Education



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 THE DOMESTIC MEDICAL DEVICES MARKET

We will take advantage of our brand recognition and our sales distribution network in the domestic market to maintain and strengthen our leading position in the PRC medical devices market. For example, we plan to commence sales and marketing of Firehawk and MicroPort Orthopedic's products in the PRC, and also conduct import, sale and service of Sorin's CRM devices in Greater China in addition to our existing business.

2. DEEPEN OUR INTERNATIONALISATION

After the acquisition of the OrthoRecon business from Wright Medical, the Company became an international medical company, and expected to realise globalisation of multi-points and multi centers. In 2015, we will strive to absorb the achievements of globalisation, investigate market demand and exploit international market, and at the same time deepen its operation in the Chinese market with the vision of globalisation. Furthermore, we will introduce advanced medical devices through establishing networks and sales channels, 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 physicians 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.

CORPORATE SOCIAL RESPONSIBILITY

At MicroPort, we are enthusiastic about improving the wellbeing of people and communities. Our business philosophy is grounded on the concept of contributing towards social harmony, and our dedication to improving lives through scientific medical innovation is equalled by our committed approach to social responsibility through a variety of community focused programs. After we completed the acquisition of Wright Medical's OrthoRecon Business, we continued that legacy of charity and generosity benefiting colleagues and communities and hope to maintain our reputation of being a reliable corporate steward.

CHARITY FOUNDATION

In China, we work in partnership with the Shanghai Charity Foundation to provide the M.I.M Charity Project which makes our medical devices available to those in need. We also have established several charitable foundations to provide educational opportunities for disadvantage groups of our community.

In Arlington of the U.S. where the headquarters of MicroPort Orthopedics is situated, we donated generously to local charitable foundations and charity organizations such as Arthritis Foundation, American Cancer Society, Wings Cancer Foundation, Exchange Club (Carl Perkins Center for the Prevention of Child Abuse) to support on-going healthcare programs.

CULTIVATING THE FUTURE

MicroPort has established two MicroPort Hope Schools in Chishui of Guizhou Province and Wulian of Shandong Province to provide educational opportunities for children in impoverished places. These two primary schools have been put into use in 2013 and 2010 respectively. MicroPort continued to pay regular visits to the students in 2014 to bring them emotional care and financial support. In total, we donated over RMB 220,000 in money and goods to the two Hope Schools last year.

MicroPort also arranged a special trip for 40 students of the two Hope Schools to visit famous universities, museums, aquariums and other places of interests in Shanghai from July 8 to July 13, 2014. This journey not only enlarged their horizons – for most of them, this is the first time to visit a metropolis in China – but would mature their hearts as well. According to a teacher from Chishui Hope School who companied the children along the way, some children were growing a stronger sense of responsibility – the older ones learnt to take care of the younger ones – and more importantly they learnt to love back from MicroPort's good deeds.

Meanwhile, MicroPort has set up scholarships and donated to public schools and universities to provide help for students who are financially challenged but outstanding in academic performances and moral quality. In China, we have established the MicroPort Aspiration & Encouragement Scholarship Fund for the College of Medical Instrument at the University of Shanghai for Science and Technology and have founded a scholarship fund for the Zhangjiang Institute of Innovation which is dedicated to training and cultivating talents for enterprises in Zhangjiang Hi-Tech Park. In the U.S. MicroPort offered scholarships to several universities last year, such as Middle Tennessee State University, Mississippi State University, University of Memphis, University of Tennessee and University of Illinois.

COMMUNITY SERVICE

In 2014, MicroPort organized six community activities to promote public knowledge and awareness of heart attack and arrhythmia, four in Shanghai and two in Beijing. More than 500 people in total attended these activities and around 80 percent of them spoke highly of such program according to results of phone-call follow-up surveys.

The community campaign aimed to raise awareness and educate the public about heart attack and arrhythmia through various activities including expert consulting, community surveys and training for doctors. MicroPort also invited cardiologists to engage in a range of teaching opportunities to help the community learn about symptoms of heart attack and arrhythmia, first-aid treatments, the causes of heart attack, the importance to get quick treatment, and how lifestyle changes can prevent heart diseases.

In the U.S. MicroPort Orthopedics cares about supporting and improving our local communities as well. Between Thanksgiving and Christmas of 2014, we encouraged employees to participate in the Days of Charity project where business units could work within their teams or collaborate with other groups to give back to our surrounding communities. Over the course of a few weeks, MicroPort made quite an impact on the surrounding communities and the charitable organizations that usually provide the Christmas cheer. For example, we provided support for families with children who have serious or long-term illnesses; donated to MicroPort's own employee families to ensure they were able to have gifts for their children and some extra money for essential items; led a food drive for the Mid-South Food Bank to feed needy and hungry people; offered help to families in preventing and dealing with child abuse; and sent gifts to seniors in the Gallaway Health and Rehab Center on Christmas eve.

ENVIRONMENT AND SUSTAINABILITY

We are committed to creating a successful business that isn't achieved at the expense of the environment. MicroPort is dedicated to creating an environmentally friendly and sustainable operation. Our biggest environmental impact is created within our properties and manufacturing facilities, and through the use of raw materials, electricity, gas, paper, and waste generation. We therefore invest in the latest technology to reduce our carbon emissions through energy efficient equipment. Internally, we are proactive in addressing our waste and recycling issues.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang (常兆華), born in 1963, is the founder, executive director of the Company ("Director"), Chairman and Chief Executive Officer ("CEO") of our Company. Dr. Chang has served as a Director since 14 July 2006 and assumed the responsibility of the CEO of our Company from April 2008 to July 2010, and reassumed the responsibility of the CEO of our Company from 20 September 2012. Dr. Chang is currently holding directorship in various subsidiaries of the Group. Dr. Chang has over 24 years of experience in the medical devices industry, and he is currently a professor of the Medical Device College of the University of Shanghai for Science and Technology. Prior to founding Shanghai MicroPort Medical (Group) Co., Ltd (上海微創醫療器械(集團)有限公司) ("MP Shanghai") in 1998, Dr. Chang was the vice president of R&D of Endocare Inc., a NASDAQ listed medical devices company based in California, U.S., from 1996 to 1997. From 1990 to 1995, he was the senior engineer and senior scientist, director of R&D and vice president of engineering at Cryomedical Sciences Inc., a medical devices company in Maryland, U.S., which was listed on NASDAQ prior to its acquisition by a third party. Dr. Chang has published a number of articles in biomedical science magazines, and holds 14 patents in China and the United States. Dr. Zhaohua Chang received a bachelor's degree in refrigeration engineering in 1983 and a master's degree in cryogenics in 1985 from the University of Shanghai for Science and Technology. Dr. Chang received his Ph.D. degree in biological sciences from the State University of New York at Binghamton in 1992.

NON-EXECUTIVE DIRECTORS

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

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

Ms. Weiwei Chen(陳微微), born in 1972, was appointed as a non-executive Director on 30 June 2014. Ms. Chen is also a director of MP Shanghai, Leader City Limited and MicroPort Medical Limited (other members of the Company). Ms. Weiwei Chen is now the Deputy General Economist of Shanghai Zhangjiang (Group) Co., Ltd. Ms. Weiwei Chen graduated from Tongji University with a master degree in Environment Engineering. Ms. Chen, an economist, has the professional title of Engineer. Ms. Chen has extensive experience in management.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zezhao Hua (華澤釗), born in 1938, was appointed as our independent non-executive Director on 9 March 2010. Mr. Hua is a noted scholar in the biotechnology and medical devices fields, and has been a professor, lecturer and visiting scholar at several universities in China and the United States for more than 30 years. Mr. Hua has served as first chair professor of the Medical Device College of the University of Shanghai for Science and Technology since 1996. From 1990 to 1996, Mr. Hua was the dean of the Power Engineering College of the East China University of Technology. Mr. Hua was a guest professor of the Department of Biological Sciences of the State University of New York at Binghamton from 1990 to 1991. Mr. Hua has published numerous articles and received various awards in the biotechnology and medical devices fields. Mr. Hua also holds 10 patents in China. Mr. Hua was an university student (6-year-system) in thermal engineering and graduate student (3-year-system) in engineering thermophysics in Tsinghua University, and graduated in 1962 and 1965, respectively. Mr. Hua was a visiting scholar at the Massachusetts Institute of Technology from 1980 to 1983.

Mr. Jonathan H. Chou (周嘉鴻), born in 1964, was appointed as our independent non-executive Director on 3 September 2010. Mr. Chou has served as Senior Vice President & Chief Financial Officer of Kulicke & Soffa Industries, Inc., a NASDAQ listed company (NASDAQ: KLIC) since December 2010. After successful completion of the move of Kulicke & Soffa's Global Corporate Headquarters from the U.S. to Singapore, he led a complex business tax restructuring project to improve operating efficiency and reduce the company's effective tax rate during a record setting fiscal year of 2011. Effective from 1 October 2012, Mr. Chou's overall responsibilities expanded to include Global Information Technology. Mr. Chou has over 20 years of professional experience largely with Fortune 500 companies. He was the Asia Pacific Chief Financial Officer and Vice President, Mergers & Acquisitions ("M&A") of Honeywell International, where he managed the company's M&A activities in the region from Shanghai, China. Prior to Honeywell, he was the Asia Chief Financial Officer of Tyco ADT, the Fire & Security segment of Tyco International, where he led initiatives to improve operating efficiency and improvement of corporate governance to meet Sarbanes-Oxley attestation. Mr. Chou served as Asia/Pacific Regional Chief Financial Officer of Lucent Technologies Inc., based in Hong Kong and Singapore. Before that, he held the position of Managing Director of Treasury & Customer Finance for Asia Pacific and China regions, with a portfolio of over US$1.4 billion of vendor financing commitments. Prior to joining K&S, Mr. Chou was the Chief Financial Officer of a private equity portfolio company, where he was instrumental in managing the audit and listing process. In April 2009, he was awarded "China's Top Ten CFOs of 2008" by CFO World Magazine in recognition of his leadership role for navigating through the global financial crisis. Mr. Chou received a Bachelor of Arts degree from the State University of New York at Buffalo in 1988 and a master's degree in business administration from Fuqua School of Business at Duke University in 1999.

Dr. Guoen Liu (劉國恩), born in 1957, was appointed as our independent non-executive Director on 3 September 2010. Dr. Liu is a noted scholar in the fields of health and development economics, health reform and pharmaceutical economics. Dr. Liu has served as professor of economics at National School of Development of Peking University, executive director of the Guanghua School of Management Health Economics and Management Institute of Peking University, and director of the China Center for Pharmaceutical Economics and Outcomes Research of Peking University since 2006. From 2000 to 2006, Dr. Liu was tenured associate professor of University of North Carolina at Chapel Hill. From 1994 to 2000, Dr. Liu was assistant professor of University of Southern California. Dr. Liu also serves as editor or a member of the editorial board in various periodic in the field of pharmaceutical economics. Dr. Liu received his bachelor's degree in mathematics from Southwestern University for Nationalities in 1981, his master's degree in statistics from Southwestern University of Finance and Economics in 1985, his Ph.D. in economics from the City University of New York in 1991, and post-doctoral training in health economics from Harvard University in 1994.

SENIOR MANAGEMENT

After the Completion of the Acquisition of Wright Medical's OrthoRecon Business, the Company consists of two geographically distinctive operational units which are Greater China and Inter-continental respectively managed by the Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC"). Dr. Zhaohua Chang is the Founder, Chairman and CEO of our Company and MP Shanghai. Mr. Hongbin Sun is the Chief Financial Officer ("CFO") of the Company and MP Shanghai, Mr. Qiyi Luo is the Chief Technology Officer ("CTO") of the Company. Mr. Jonathan Chen is the Senior Vice President of International Operation & Investor Relations of the company.

Dr. Zhaohua Chang (常兆華), executive Director, Chairman and CEO of the Company. Please refer to the section headed "Directors—Executive Director" above for the details of his biography.

Mr. Hongbin Sun (孫洪斌), born in 1975, is the CFO of the Company. Mr. Sun served as a Director from 22 July 2010 to 20 September 2012. He was also a Supervisor of MP Shanghai until July 2010. Mr. Sun is currently holding directorship in Shanghai MicroPort Orthopedics Co., Ltd. (上海微創骨科醫療科技有限公司), a subsidiary of the Group. Mr. Sun has over 17 years of finance experience. Mr. Sun was the Director and General Manager of Otsuka China from 2006 to July 2010. From 2004 to 2006, he served as a Financial Director of Otsuka China. From 1998 to 2003, Mr. Sun was an Assistant Manager of the Shanghai office of KPMG. Mr. Sun is a member of the Chinese Institute of Certified Public Accountants and is also a Chartered Financial Analyst. Mr. Sun received his bachelor's degree in economics from Shanghai Jiao Tong University in 1998.

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

Mr. Jonathan Chen, Senior Vice President of International Operations & Investor Relations of the Company, and Co-Chairman of IEC. Mr. Jonathan Chen has been with the Company since July 2012. Mr. Chen's primary responsibilities include growing MicroPort's International business in markets outside of China primarily in U.S., Europe and South America geographies. Mr. Chen has over 19 years' experience in the medical devices industry. Prior to joining MicroPort, Mr. Chen worked for Angiotech Pharmaceuticals, Inc. for 6 years where he was Senior Vice President, Business Development where he led the management team to build a US$300 million in revenue medical products business through various acquisitions and licensing transactions. Prior to joining Angiotech, Mr. Chen was a life sciences investment banker for Credit Suisse and Alex. Brown & Sons where he helped his clients raise in excess of US$2 billion in equity and debt capital and advised on over US$3 billion in M&A transactions. Mr. Chen has a Bachelor of Arts in Economics and a Bachelor of Sciences with honors in Biological Sciences from Stanford University.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Junder Chiang (江俊德), born in 1965, is Chief Human Resources Officer ("CHRO") of the Company and member of CEC and IEC. He served as the CHRO of the Company since 15 December 2014. Mr. Chiang has gained rich international experience as Human Resource Senior Executive in top multinational corporations. Before joining the Company, Mr. Chiang served as Chief People Officer for McDonald Corporation (China Operations) in 2014, and worked as Ashland Asia Pacific HRD from 2009 to 2014, Senior HR Leader for General Motors (JV Liaison China) from 2005 to 2008. Mr. Chiang has also gained valuable experience working for Delphi in Singapore and USA between 1995 and 2004. Mr. Chiang earned a Bachelor's Degree from Taiwan-based Tamkang University, majoring in Business Economics, and achieved his Master's degree in Business Administration in Human Resources and Organization Development from University of Illinois Urbana-Champaign in the USA.

GREATER CHINA EXECUTIVE COMMITTEE

Mr. Bo Peng (彭博), born in 1968, is Chief Marketing Officer of MP Shanghai and Chairman of CEC. Prior to August 2010, Mr. Peng served as Senior Vice President of domestic sales and marketing of the Company. Mr. Peng has over 19 years of experience in marketing and sales. Prior to joining us in 2001, Mr. Peng served as Vice President, General Manager of the sales subsidiary, and Director of Xianxing Electronics Group. Mr. Peng received his bachelor's degree in computer science from Changchun University of Science and Technology in 1990 and a master's degree in business administration from Shanghai University of Finance & Economics in 2003.

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

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

Ms. Yan Zhang (張燕), born in 1970, is President of MP Shanghai and member of CEC. Ms. Zhang served as a Director from 22 July 2010 to 20 September 2012. Ms. Zhang also served as our Senior Vice President of corporate affairs, General Counsel, Compliance Officer and Board Secretary prior to July 2010. Ms. Zhang is currently holding directorship in Shanghai MicroPort Lifesciences Co., Ltd. (上海微創生命科技有限公司), a subsidiary of the Group. Ms. Zhang has over 17 years of legal experience practicing PRC law in China. Prior to joining us in 2006, Ms. Zhang was a senior lawyer of King & Wood, a leading law firm in China, from 2000 to 2006. From 1995 to 2000, Ms. Zhang was a lawyer of Development Law Firm in Zhejiang, China. Ms. Zhang received her master's degree in law and her bachelor's degree in law from East China University of Political Science and Law in China in 2002 and 1991 and her Master of Business Administration Degree from CEIBS in 2011, respectively.

Mr. Kongrong Karl Pan (潘孔榮), born in 1959, is Senior Vice President of Supply Chain of MP Shanghai. Mr. Pan has over 22 years of experience in manufacturing and supply chain management in the medical devices industry. Prior to joining us in 2009, Mr. Pan served as Senior Principal Engineer and Engineering Manager at St. Jude Medical Inc. in the U.S. from 1997 to 2009. From 1992 to 1996, Mr. Pan was Senior Research and Development Engineer at Jostens Inc. in the United States. Mr. Pan holds one patent in the U.S.. Mr. Pan received his Bachelor's Degree of Science in aerospace engineering from Beijing University of Aeronautics and Astronautics in China in 1982 and his Master of Science degrees in mechanical engineering from Shanghai Polytechnic University in China and University of Minnesota in the U.S. in 1986 and 1992, respectively. Mr. Pan also obtained his master's degree in business administration from the University of Minnesota in the U.S. in 2002.

Mr. Yimin Xu (徐益民), born in 1967, Senior Vice President of Regulatory Affairs of MP Shanghai and a member of CEC, as well as Secretary of Party Committee of the Group. Mr. Xu was Vice President of Quality and Regulatory of MP Shanghai until January 2011. He has over 15 years of experience in medical devices industry. Prior to joining us in 2000, Mr. Xu served as project manager in Project Department of Shanghai Zhangjiang Hi-Tech Development Co., Ltd. from 1995 to 2000. Mr. Xu also served as quality engineer in Nanjing No.2 Air Compressor Factory from 1988-1992. Mr. Xu received his master's degree in Mechanical and Electronic Engineering from Shanghai Jiaotong University in 1995.

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

INTER-CONTINENTAL EXECUTIVE COMMITTEE

Mr. Ted Davis, Chief Executive Officer of MicroPort Orthopedics, Chairman of IEC. Mr. Ted Davis joined MicroPort Orthopedics as President, following the asset purchase of Wright Medical's OrthoRecon Business in January 2014. Mr. Davis has led the OrthoRecon business for Wright Medical Technology, Inc. ("Wright") since 2012, with global responsibility for the approximately $250 million hip and knee arthroplasty segment. Prior to assuming leadership of the OrthoRecon business, Mr. Davis led Wright's Corporate Development and Research & Development functions, with responsibilities for the Business Development, Government Affairs, National Accounts, Reimbursement, Medical Education and Global Research & Development teams from 2010 through 2012. Mr. Davis originally joined Wright as Vice President – Business Development in December 2006 and has led several corporate strategic initiatives, including the establishment of Wright Direct and the completion of two corporate spin-offs. Prior to joining Wright, Mr. Davis spent 10 years in the life sciences venture capital field at MB Venture Partners and Vector Fund Management, where he served on various boards of privately held medical devices and biotechnology companies. Mr. Davis began his career in the healthcare management consulting and pharmaceutical industries. Mr. Davis received a Bachelor of Engineering degree in Biomedical Engineering from Vanderbilt University and an MBA from the J.L. Kellogg Graduate School of Management at Northwestern University. He currently serves on the Board of Directors for SIBone, Inc. and The Memphis Research Consortium.

Mr. Jonathan Chen, Senior Vice President of International Operations & Investor Relations for our Company, and Co-Chairman of IEC. Please refer to the above for the detail of his biography.

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

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

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

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

REPORT OF THE DIRECTORS

The Board of the Company is pleased to present this report together with the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 14 to the consolidated financial statements. There were no significant changes in the nature of Group's activities during the year.

FINANCIAL STATEMENTS

The financial performance of the Group for the financial year ended 31 December 2014 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 62 to 160 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2014, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 17.1% and 37.9% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 2.8% and 12.4% respectively of the Group's total revenue for the year.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29(c)(i) to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2014 are set out in note 22 to consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity".

As at 31 December 2014, the Company had reserves available for distribution of US$212 million (2013: US$211 million).

GROUP FINANCIAL SUMMARY

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

DIRECTORS

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

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen *(Appointed on 30 June 2014)*
Mr. Ganjin Chen *(Resigned on 11 June 2014)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zezhao Hua
Mr. Jonathan H. Chou
Dr. Guoen Liu

Dr. Zhaohua Chang, Mr. Norihiro Ashida and Mr. Hiroshi Shirafuji will retire from office as Directors at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election pursuant to the Articles of Association of the Company.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 28 to 33 of this annual report.

DIRECTORS' SERVICE CONTRACT

None of the executive Director and non-executive Directors has entered into a service contract regarding their office of director with the Company. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 24 September 2010 and such appointment will continue thereafter unless and until terminated by either party in accordance with the letter of appointment.

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

EMOLUMENT POLICY

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

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

As at 31 December 2014, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES OF THE COMPANY ("SHARES")

Name of Director/Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of interest in the Company
Chang Zhaohua	2,500,000	1	Beneficial owner	Long position	0.17%

Note:

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

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2014, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

INTERESTS AND SHORT POSITION IN THE SHARES

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of Shares in issue (%)
Otsuka Holdings Co. Ltd	468,994,120	1	Interest of controlled corporation	Long position	32.97
Otsuka Medical Devices Co., Ltd.	468,994,120	1	Beneficial owner	Long position	32.97
Shanghai Zhangjiang (Group) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.59
Shanghai Zhangjiang Science and Technology Investment Co.	221,748,050	2	Interest of controlled corporation	Long position	15.59
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.59
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.59
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.59
Shanghai ZJ Hi-Tech Investment Corporation	221,748,050	2	Interest of controlled corporation/ Beneficial Owner	Long position	15.59
Shanghai ZJ Holdings Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.59
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	2	Beneficial Owner	Long position	15.09
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	15.26
We'Tron Capital Ltd.	217,110,000	3	Beneficial owner	Long position	15.26
Shanghai We'Tron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	15.26
GIC Private Limited	123,356,590	4, 5	Interest of controlled corporation/ Investment manager	Long position	8.67
GIC Special Investments Pte Ltd.	113,669,590	4	Interest of controlled corporation	Long position	7.99
GIC (Ventures) Pte Ltd.	113,669,590	4	Interest of controlled corporation	Long position	7.99
Owap Investment Pte Ltd.	113,669,590	4	Person having a security interest in shares	Long position	7.99
Gao Yang Investment Corp.	75,233,720	6	Interest of controlled corporation/ Beneficial owner	Long position	5.29
Shen Yao Fang	75,233,720	6	Interest of controlled corporation	Long position	5.29

Notes:

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

(2) Shanghai Zhangjiang (Group) Co., Ltd. is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Shanghai Pudong New Area People's Government. Shanghai Zhangjiang (Group) Co., Ltd. holds 100% interest in Shanghai Zhangjiang Science and Technology Investment Co., which in turn holds 100% interest in Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited, which in turn holds 50% interest in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai Zhangjiang (Group) Co., Ltd. also holds 53.58% interest in Shanghai Zhangjiang Hi-Tech Park Development Co. Ltd., which in turn holds 100% interest in Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd., which in turn holds 100% interest in Shanghai ZJ Holdings Limited, which in turn holds 50% in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai ZJ Hi-Tech Investment Corporation holds 100% interest in Shanghai Zhangjiang Health Solution Holdings Limited. The interest in 221,748,050 Shares held by these companies relates to the same block of Shares by virtue of the long position in the Shares held by the following companies:

Approximate percentage of total number of Shares

Name of Controlled Corporation	No. of Shares	Approximate percentage of total number of Shares in issue (%)
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	15.10
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.49
Total	221,748,050	15.59

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

(4) GIC Private Limited holds the 100% interest of GIC Special Investments Pte Ltd., which in turn holds 100% interest of GIC (Ventures) Pte Ltd., which in turn holds 100% interest of Owap Investemnt Pte Ltd., therefore, shares held by GIC Private Limited, GIC Special Investments Pte Ltd. and GIC (Ventures) Pte Ltd. are deemed as security interests in the same 113,669,590 shares held by Owap Investments Pte Ltd.

(5) 9,687,000 shares held by GIC Private Limited are interests held as investment manager.

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

Save as disclosed above, and as at 31 December 2014, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' INTERESTS IN CONTRACTS

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

Save as disclosed in note 33 to the consolidated financial statements, no contract of significance had been entered into between the Company or any of its subsidiaries and the Controlling Shareholders (as defined in the Listing Rules) of the Company or any or its subsidiaries.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

CONNECTED TRANSACTIONS

(I) EXCLUSIVE DISTRIBUTION AGREEMENTS

According to the agreements ("Exclusive Distribution Agreements") entered into between MP Shanghai, a wholly-owned subsidiary of the Company, and Thai Otsuka Pharmaceutical Co., Ltd, Otsuka (Philippines) Pharmaceutical, Inc., P.T. Otsuka Indonesia, Otsuka Pakistan Ltd., and JIMRO Co., Ltd. ("Controlling Shareholder Group"), details of which were disclosed in the announcement of the Company dated 17 January 2014, MP Shanghai will supply the drug-eluting stent systems and balloon catheters to the Controlling Shareholder Group and the Controlling Shareholder Group will act as the Group's exclusive distributors of the aforesaid products in Thailand, Philippines, Indonesia, Pakistan and Japan, which would provide the Group the distribution channels to increase the sales of its products. The transactions conducted under the Exclusive Distribution Agreements were made at prices no less favourable than those of similar transactions with independent third parties in accordance with the pricing terms therein. The Exclusive Distribution Agreements expired on or after 31 December 2014 and new exclusive distribution agreements were entered into on 1 January 2015 to renew the Exclusive Distribution Agreements, details of which were disclosed in the announcement of the Company dated 2 January 2015.

As the Controlling Shareholder Group are subsidiaries of Otsuka Holdings co., Ltd., which is the ultimate controlling shareholder of the Company as at the date of this report, the Controlling Shareholder Group are connected persons of the Company as defined under the Listing Rules. Accordingly, the above transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Within the reporting period, all the continued connected transactions were conducted according to the Exclusive Distribution Agreement, and didn't exceed the annual cap set out in the Exclusive Distribution Agreement.

(II) CREDIT AGREEMENT

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

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

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

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

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

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

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

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

Save and except for the 4,711,000 shares of the Company (the "Shares") purchased, through the trustee of the share award scheme at cash consideration of US$3,252,000 on The Stock Exchange of Hong Kong Limited in April 2014, 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 2014.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save for the acquisition of Wright Medical's OrthoRecon business as discussed in the section headed "Acquisition" in the Management Discussion and Anaylsis of this report, the Group did not have any material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2014.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2014.

SHARE AWARD SCHEME

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

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

Pursuant to a share award scheme approved by the Board in 2011, the trustee of the share award scheme purchased, a total of 4,711,000 shares of the Company at cash consideration of US$3,252,000 on the Stock Exchange during the year ended 31 December 2014.

SHARE OPTION SCHEMES

PRE-IPO SHARE OPTION SCHEME

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

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme is 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 31 December 2014, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represent 11.7 % of the issued share capital of the Company. However, no additional options have been issued under the Pre-IPO Share Option Scheme since the listing of the Company on the Stock Exchange, and the total outstanding options that has been issued under the Pre-IPO Share Option Scheme is 30,667,650.

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

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was approved and adopted pursuant to a written resolution of all the Shareholders of the Company on 3 September 2010 (the "Adoption Date").

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

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

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. As of 31 December 2014, 28,108,500 Shares were available for issue under the Share Option Scheme, which represented 1.97% of the issued share capital. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time.

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

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

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

The Board will determine the price per Share upon the exercise of an option according to the terms of the Share Option Scheme, provided that it shall be at the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Hong Kong Stock Exchange on the date of the offer of a grant; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of the offer of a grant; and (iii) the nominal value of a share on the date of grant.

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

During the year, 1,150,000 share options were granted and the status of the share options granted up to 31 December 2014 is as follows:

Category of participants	As at 1 January 2014	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2014	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
Directors										
Zhaohua Chang	10,000,000	–	7,500,000	–	2,500,000	July 9th, 2010	Jul. 9th, 2011-Jul. 8th, 2014	Jul. 9th, 2011-Jul. 8th, 2020	USD0.3062	NA
In aggregate	**10,000,000**	**-**	**7,500,000**	**-**	**2,500,000**					
Consultants										
	1,700,450	–	40,000	1,660,450	–	February 20th, 2004	Sep. 24th, 2010-Sep. 23rd, 2011	Sep. 24th, 2011-Feb. 19th, 2014	USD0.025	NA
	1,774,080	–	1,774,080	–	–	February 20th, 2004	Sep. 24th, 2010-Sep. 23rd, 2011	Sep. 24th, 2011-Feb. 19th, 2014	HKD0.05827	NA
	818,680	–	–	818,680	–	February 20th, 2004	Sep. 24th, 2010-Sep. 23rd, 2011	Sep. 24th, 2011-Feb. 19th, 2014	HKD0.07046	NA
	818,680	–	–	818,680	–	February 20th, 2004	Sep. 24th, 2010-Sep. 23rd, 2011	Sep. 24th, 2011-Feb. 19th, 2014	HKD0.05637	NA
	1,000,000	–	–	–	1,000,000	May 17th, 2007	May. 17th, 2007-May. 16th 2011	May 17th, 2008-May 16th, 2017	USD0.3062	NA
	500,000	–	–	–	500,000	June 14th, 2007	Sep. 24th, 2010-Sep. 23rd, 2014	Sep. 24th, 2011-Sep. 23rd, 2020	USD0.3062	NA
In aggregate	**6,611,890**	**-**	**1,814,080**	**3,297,810**	**1,500,000**					
Employees										
	2,605,610	–	100,000	–	2,505,610	March 2nd, 2007	Mar. 2nd, 2007-Feb. 14th, 2011	Feb. 15th, 2008-Jan. 24th, 2017	USD0.275	NA
	1,698,790	–	364,900	7,080	1,326,810	April 23th, 2007	Apr. 23rd, 2007-Mar. 1st, 2013	Apr. 23rd, 2007-Apr. 22nd, 2017	USD0.275	NA

Category of participants	As at 1 January 2014	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2014	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
	500,000	–	–	–	500,000	June 14th, 2007	Sep. 23rd, 2007-Sep. 22nd, 2012	Sep. 23rd, 2008-Sep. 22nd, 2017	USD0.3062	NA
	1,000,000	–	–	–	1,000,000	July 25th, 2008	Jul. 25th, 2008-Apr. 27th, 2010	Jul. 25th, 2008-Jul. 24th, 2018	USD0.3062	NA
	500,000	–	–	–	500,000	July 25th, 2008	Jul. 25th, 2008-Jul. 24th, 2012	Jul. 25th, 2009-Jul. 24th, 2018	USD0.3062	NA
	200,000	–	–	–	200,000	December 1st, 2008	Jun. 24th, 2008-Jun. 23rd, 2012	Jun. 24th, 2009-Jun. 26rd, 2018	USD0.3062	NA
	1,500,000	–	1,500,000	–	–	December 1st, 2008	Jan. 1st, 2009-Dec. 31st, 2012	Jan. 1st, 2010-Dec. 31st, 2018	USD0.3062	NA
	150,000	–	50,000	–	100,000	February 6th, 2009	Feb. 6th, 2009-Feb. 5th, 2014	Feb. 6th, 2010-Feb. 5th, 2019	USD0.425	NA
	4,000,000	–	–	–	4,000,000	October 21st, 2009	Oct. 9th, 2009-Oct. 8th, 2014	Oct. 9th, 2010-Oct. 20th, 2019	USD0.3062	NA
	1,500,000	–	–	300,000	1,200,000	October 21st, 2009	Oct. 15th, 2009-Oct. 14th, 2014	Oct. 15th, 2010-Oct. 20th, 2019	USD0.3062	NA
	488,000	–	20,000	–	468,000	October 21st, 2009	Jan. 1st, 2010-Dec. 31st, 2014	Jan. 1st, 2011-Oct. 20th, 2019	USD0.3062	NA
	700,000	–	–	–	700,000	July 8th, 2010	Aug. 1st, 2010-Jul. 31st, 2014	Aug. 1st, 2011-Jul. 7th, 2020	USD0.3062	NA
	226,500	–	–	–	226,500	July 8th, 2010	Jul. 8th, 2010-Jul. 7th, 2014	Jul. 8th, 2011-Jul. USD0.3062 7th, 2020	USD0.3062	NA
	11,475,730	–	1,375,000	–	10,100,730	July 9th, 2010	Jul. 9th, 2010-Jul. 8th, 2014	Jul. 9th, 2011-Jul. 8th, 2020	USD0.3062	NA
	250,000	–	–	–	250,000	Aug 9th, 2010	Aug. 9th, 2010-Aug. 8th, 2014	Apr. 28th, 2011-Aug. 8th, 2020	USD0.3062	NA
	3,790,000	–	200,000	–	3,590,000	Aug 9th, 2010	Aug. 9th, 2010-Aug. 8th, 2014	Sep. 1st, 2011-Aug. 8th, 2020	USD0.3062	NA

Category of participants	As at 1 January 2014	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2014	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
	500,000	–	–	–	500,000	Oct 17th, 2011	Oct. 17th, 2012-Dec. 17th, 2018	Oct. 17th, 2012-Oct. 16th, 2021	HKD4.790	HKD4.790
	750,000	–	187,500	–	562,500	Nov 1st, 2011	Nov. 17th, 2012-Nov. 1st, 2017	Nov. 1st, 2012-Oct. 31st, 2021	HKD4.470	HKD4.470
	10,000,000	–	–	600,000	9,400,000	Aug 28th, 2012	Aug. 28th, 2019	Aug. 28th, 2019-Aug. 27st, 2022	HKD3.350	HKD3.350
	500,000	–	–	–	500,000	Sep 7th, 2012	Sep. 6th, 2013-Sep. 6th, 2017	Sep. 6th, 2013-Sep. 6th, 2022	HKD3.330	HKD3.330
	500,000	–	54,000	–	446,000	Oct 22th, 2012	Oct. 22th, 2013-Oct. 22th, 2017	Oct. 22th, 2013-Oct. 21st, 2022	HKD4.210	HKD4.210
	12,000,000	–	–	1,600,000	10,400,000	Dec 10th, 2012	Dec 10th, 2019	Dec 10th, 2019-9th Dec, 2022	HKD4.600	HKD4.600
	500,000	–	–	–	500,000	Jan 2th, 2013	Jan. 2th, 2014-Jan. 2th, 2018	Jan. 2th, 2014-Jan. 1st, 2023	HKD4.230	HKD4.220
	250,000	–	–	–	250,000	Aug 28th, 2013	Aug. 28th, 2014-Aug. 28th, 2018	Aug. 28th, 2014-Aug. 27th, 2023	HKD4.970	HKD4.970
	400,000		–	–	400,000	Dec 9th, 2013	Dec. 9th, 2014-Dec. 9th, 2017	Dec. 9th, 2014-Dec. 8th, 2023	HKD5.590	HKD5.400
	–	650,000	–	–	650,000	Jan 21st, 2014	Jan. 21st, 2014-Jan. 20th, 2019	Jan. 20th, 2015-Jan. 20th, 2024	HKD5.352	HKD5.210
	–	500,000	–	–	500,000	Aug 28th, 2014	Aug. 28th, 2014-Aug. 28th, 2019	Aug. 28th, 2015-Aug. 27th, 2024	HKD4.718	HKD4.520
In aggregate	**55,984,630**	**1,150,000**	**3,851,400**	**2,507,080**	**50,776,150**					
Seller of Dongguan Kewei	4,000,000	–	–	–	4,000,000	Jun 25th, 2012	Jun. 25th, 2016	Jun. 25th, 2016-Jun. 26th, 2016	HKD3.240	HKD3.190
In aggregate	**4,000,000**	**–**	**–**	**–**	**4,000,000**					
Total	**76,596,520**	**1,150,000**	**13,165,480**	**5,804,890**	**58,776,150**					

ISSUANCE OF CONVERTIBLE BONDS

On 12 May 2014, the Company finished the issuance of US$100 million convertible bonds to Owap Investment Pte Ltd, an investment vehicle managed by GIC Special Investments Pte Ltd. ("GIC"), Singapore's sovereign wealth fund and one of the largest investment management organisations in the World. It represented another significant step forward for the Company in gaining recognitions from international investors as a leading Chinese medical devices company.

GIC's investment showed its long-term confidence in MicroPort with conversion price of HK$6.84 (US$0.88) per conversion Share for the convertible bonds due 2019, a premium of 24% over HK$5.51 per Share, the closing price of MicroPort on the last trading day before the transaction. The net proceeds from the issue of the convertible bonds will be used for the repayment of a portion of the Otsuka Loan and, prior to such repayment, for short-term investments in cash and cash equivalents. Based on the initial conversion price of HK$6.84 per conversion Share and assuming full conversion of the bonds, the bonds will be convertible into approximately 113.67 million new Shares, representing approximately 7.44% of the ordinary share capital of MicroPort, as enlarged by the conversion Shares.

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 2014 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 29 June 2015. The notice of AGM will be sent to Shareholders at least 20 clear business days before AGM.

FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the financial year ended 31 December 2014 (2013: 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, 26 June 2015 to Monday, 29 June 2015, 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, 25 June 2015.

CORPORATE GOVERNANCE

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

AUDITORS

KPMG has acted as auditors of the Company for the financial year ended 31 December 2014.

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

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

Shanghai, China
31 March 2015

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the financial year ended 31 December 2014.

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

CORPORATE GOVERNANCE PRACTICES

The 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 2014, 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 Provisions A.2.1 and A.6.7 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.

- Paragraph A.6.7 of the Code Provisions requires that the non-executive directors and the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. During the financial year ended 31 December 2014, an annual general meeting was held on 30 June 2014 at which Mr. Jonathan H. Chou and Dr. Guoen Liu did not attend due to other business engagements; and an extraordinary general meeting ("EGM") was held on 3 January 2014 at which Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji, Mr. Ganjin Chen, Mr. Lezhao Hua and Mr. Jonathan H. Chou did not attend due to other business engagements.

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

CORPORATE GOVERNANCE REPORT

THE BOARD/BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance. The Board has delegated the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

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

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

BOARD COMPOSITION

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

As at 31 December 2014, the Board comprises seven members, consisting of one executive director, three non-executive directors and three independent non-executive directors.

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

The Board of the Company comprises the following Directors:

EXECUTIVE DIRECTOR:

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

NON-EXECUTIVE DIRECTORS:

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Ms. Weiwei Chen *(Appointed on 30 June 2014)*
Mr. Ganjin Chen *(Resigned on 11 June 2014)*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Zezhao Hua

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

Throughout the financial year ended 31 December 2014, the Board at all-time met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise and the Board, at all-times met the requirement of the Listing Rules in regard of independent non-executive directors to constitute one-third of an issuer's board.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Mr. Ganjin Chen has resigned as a non-executive Director which effect from 11 June 2014, and Ms. Weiwei Chen was appointed as a non-executive Director with effect from 30 June 2014.

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. Accordingly, each of the independent non-executive Director is engaged on an appointment letter for a term of three years commencing from 24 September 2010 and such appointment will continue thereafter unless and until terminated by either party in one-month's written notice.

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

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

NOMINATION COMMITTEE

The Nomination Committee comprises three members:

Mr. Zezhao Hua *(Chairman)*
Dr. Guoen Liu
Ms. Weiwei Chen *(Appointed on 30 June 2014)*
Mr. Ganjin Chen *(Resigned on 11 June 2014)*

Majority of the members are independent non-executive Directors.

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

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

During the financial year ended 31 December 2014, a meeting of the Nomination Committee was held and all the members attended the meeting. The members reviewed the current composition of the Board and to discuss about the Board Restructure to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The members also considered suitable candidates to be CEO and Compliance Officer to the Company respectively.

In accordance with the Company's Articles of Association, Dr. Zhaohua Chang, Mr. Norihiro Ashida, and Mr. Hiroshi Shirafuji shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company established the Nomination Committee in March 2010 with written terms of reference in compliance with the Corporate Governance Code.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

During the year of 2014, an in-house seminar was conducted covering the topics of Director's duties under Appendix 10 and Appendix 14 of the Listing Rules and the amended articles of connected transactions under Chapter 14A of the Listing Rules. All Directors attended the seminar.

BOARD MEETINGS

FUNCTIONS

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

BOARD PRACTICES AND CONDUCT OF MEETINGS

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

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

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

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

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

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

DIRECTORS' ATTENDANCE RECORDS

During the financial year ended 31 December 2014, four Board Meetings were held for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company; an AGM was held for reviewing and approving financial statements, re-election of directors, re-appointment of auditors, and so on; an EGM was held for reviewing and approving the asset purchase agreement, credit agreement, and other relative resolutions.

The attendance records of each Director at the Board meetings, the AGM and the EGM during the term of office as a Director during the year ended 31 December 2014 are set out below:

Name of Director	Attendance/Number of Board meetings held during the term of office of the Director concerned	Attendance/Number of AGM held during the term of office of the Director concerned	Attendance/Number of EGM held during the term of office of the Director concerned
Executive Director			
Dr. Zhaohua Chang	4/4	1/1	1/1
Non-Executive Directors			
Mr. Norihiro Ashida	4/4	1/1	0/1
Mr. Hiroshi Shirafuji	3/4	1/1	0/1
Ms. Weiwei Chen *(Appointed on 30 June 2014)*	2/2	–	–
Mr. Ganjin Chen *(Resigned on 11 June 2014)*	2/2	–	0/1
Independent Non-Executive Directors			
Mr. Zezhao Hua	3/4	1/1	0/1
Mr. Jonathan H. Chou	4/4	0/1	0/1
Dr. Guoen Liu	3/4	0/1	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for transactions in the Company's securities throughout the financial year ended 31 December 2014.

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

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

DELEGATION BY THE BOARD

BOARD COMMITTEES

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

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

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

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

EXECUTIVE COMMITTEE

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

As at the financial year ended 31 December 2014, the CEC comprises six members: Mr. Bo Peng (chairman of CEC), Mr. Hongbin Sun (co-chairman of CEC), Mr. Qiyi Luo, Ms. Yan Zhang, Mr. Kongrong Karl Pan and Mr. Yimin Xu, the majority are heads or vice presidents of operational departments.

As at the financial year ended 31 December 2014, the IEC comprises five members: Mr. Ted Davis (chairman of IEC), Mr. Jonathan Chen (co-chairman of IEC), Mr. Hongbin Sun, Mr. Qiyi Luo and Mr. Aurelio Sahagun.

Mr. Junder Chiang, the CHRO of the Company, was appointed as the member of CEC and IEC with effect from 19 January 2015.

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

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

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members:

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

Majority of the members are independent non-executive Directors.

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

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

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

The Remuneration Committee held 3 meetings during the year ended 31 December 2014 and all the members at that time attended the meeting.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the financial year ended 31 December 2014.

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

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

AUDIT COMMITTEE

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 2014, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held 3 meetings during the year ended 31 December 2014. The attendance records of each member at the Audit Committee meetings during the year ended 31 December 2014 are set out below:

Name of members	Attendance/Number of meetings held during the year 2014
Mr. Jonathan H. Chou *(Chairman)*	3/3
Mr. Norihiro Ashida	2/3
Mr. Zezhao Hua	2/3

COMPANY SECRETARY

Ms. Yee Har Susan Lo of Tricor Services Limited, the external service provider, has been engaged by the Company as the Company Secretary. Its primary contact person at the Company is Ms. Xun You, the Board Secretary of the Company. The Company Secretary and the Board Secretary are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management. During 2014, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

INTERNAL CONTROLS

The Board is responsible for the Company's system of internal controls and is committed to managing business risks and maintaining a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets.

The Company's internal control system encompasses its policies, processes, tasks, and other aspects of the Company that taken together:

a) facilitate its effective and efficient operation by allowing it to respond appropriately to significant business, operational, financial, compliance and other risks with a view of achieving business objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;

b) help ensure maintenance of proper accounting records for the provision of reliable financial information for internal or external reporting; and

c) help ensure compliance with relevant legislation and regulations, and also with internal policies with respect to the conduct of business.

The internal control system is designed to provide reasonable, but not absolute, assurance of no material miss-statement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Company's objectives.

The Board, through the Audit Committee, has conducted reviews of the effectiveness of the Company's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions. The Board, through the review of the Audit Committee, is satisfied that the Company has fully complied with the code provisions on internal controls during the year under review as set forth in the CG Code.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 61 in this annual report.

For the financial year ended 31 December 2014, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (US$'000)
KPMG	1,206

The audit service performed by KPMG related to the statutory audit of the Group's consolidated financial statements for the financial year ended 31 December 2014.

Non-audit Services

Auditors	Fees (US$'000)
KPMG	2,072

The non-audit service performed by KPMG related to the acquisition of the OrthoRecon business, such as due diligence, tax service and other consulting service.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

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

SHAREHOLDER RIGHTS

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

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

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

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

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

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

CONTACT DETAILS

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

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

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

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2014.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the changes that have occurred since the end of the 2014 to the date of approval of this report.

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

Shanghai, China, 31 March 2015

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

We have audited the consolidated financial statements of MicroPort Scientific Corporation ("the Company") and its subsidiaries (together "the Group") set out on pages 62 to 160 which comprise the consolidated and company statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

31 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014
(Expressed in United States dollars)

	Note	2014 US$'000	2013 US$'000 (Restated*)
Turnover	3	**355,284**	151,655
Cost of sales		**(111,999)**	(28,777)
Gross profit		**243,285**	122,878
Other revenue	4	**10,080**	7,108
Other net income	4	**1,945**	212
Research and development costs		**(54,564)**	(29,195)
Distribution costs		**(133,629)**	(25,630)
Administrative expenses		**(70,773)**	(19,259)
Other operating costs		**(35,710)**	(21,897)
(Loss)/profit from operations		**(39,366)**	34,217
Finance costs	5(a)	**(12,956)**	(1,055)
Share of losses of a joint venture		**(1,192)**	–
(Loss)/profit before taxation	5	**(53,514)**	33,162
Income tax	6(a)	**(6,057)**	(9,165)
(Loss)/profit for the year		**(59,571)**	23,997
Attributable to:			
Equity shareholders of the Company		**(59,461)**	23,997
Non-controlling interests		**(110)**	–
(Loss)/profit for the year		**(59,571)**	23,997
(Loss)/earnings per share	10		
Basic (in cents)		**(4.22)**	1.71
Diluted (in cents)		**(4.27)**	1.67

* See note 1(c)(i)

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014
(Expressed in United States dollars)

	2014 **US$'000**	2013 US$'000 (Restated*)
(Loss)/profit for the year	**(59,571)**	23,997
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences of translation of financial statements of overseas subsidiaries	**(6,165)**	11,986
Other comprehensive income for the year	**(6,165)**	11,986
Total comprehensive income for the year	**(65,736)**	35,983
Attributable to:		
Equity shareholders of the Company	**(65,630)**	35,983
Non-controlling interests	**(106)**	–
Total comprehensive income for the year	**(65,736)**	35,983

* See note 1(c)(i)

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in United States dollars)

	Note	2014 US$'000	2013 US$'000 (Restated*)	1 January 2013 US$'000 (Restated*)
Non-current assets				
Fixed assets	*11*			
– Property, plant and equipment		**267,780**	135,408	91,233
– Land use rights		**18,886**	19,489	12,990
		286,666	154,897	104,223
Intangible assets	*12*	**60,506**	34,280	23,860
Prepayments for fixed assets		**1,678**	1,092	10,406
Goodwill	*13*	**56,529**	25,577	27,920
Deferred tax assets	*24(b)*	**4,124**	3,197	2,537
Interest in a joint venture	*15*	**3,866**	–	–
Non-current time deposits	*19*	**11,440**	–	–
Other non-current assets	*16*	**6,813**	–	–
		431,622	219,043	168,946
Current assets				
Inventories	*17*	**109,901**	20,314	14,741
Trade and other receivables	*18*	**121,930**	63,264	69,030
Investments and time deposits	*19*	**60,679**	56,322	106,003
Cash and cash equivalents	*20*	**215,602**	159,903	65,730
		508,112	299,803	255,504
Current liabilities				
Trade and other payables	*21*	**108,649**	45,506	27,811
Interest-bearing borrowings	*22*	**215,897**	29,629	3,260
Income tax payable	*24(a)*	**1,016**	2,848	1,434
Deferred income	*25*	**10**	14	41
Derivative financial liabilities	*22(b)*	**592**	–	–
Obligations under finance leases	*27*	**1,868**	–	–
		328,032	77,997	32,546
Net current assets		**180,080**	221,806	222,958
Total assets less current liabilities		**611,702**	440,849	391,904

* See note 1(c)(i)

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in United States dollars)

	Note	2014 US$'000	2013 US$'000 (Restated*)	1 January 2013 US$'000 (Restated*)
Non-current liabilities				
Interest-bearing borrowings	*22*	**132,817**	21,964	430
Convertible bonds	*26*	**91,573**	–	–
Obligations under finance leases	*27*	**1,894**	–	–
Deferred income	*25*	**28,989**	16,982	11,316
Other payables	*21*	**1,793**	–	–
Other non-current liabilities	*23*	**7,335**	7,053	6,472
Deferred tax liabilities	*24(b)*	**3,558**	4,417	4,602
		267,959	50,416	22,820
NET ASSETS		**343,743**	390,433	369,084
CAPITAL AND RESERVES				
Share capital	*29(c)*	**14**	14	14
Reserves		**342,239**	390,419	369,070
Total equity attributable to equity shareholders of the Company		**342,253**	390,433	369,084
Non-controlling interests		**1,490**	–	–
TOTAL EQUITY		**343,743**	390,433	369,084

* See note 1(c)(i)

Approved and authorised for issue by the board of directors on 31 March 2015.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 72 to 160 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in United States dollars)

	Note	2014 US$'000	2013 US$'000 (Restated*)	1 January 2013 US$'000 (Restated*)
Non-current assets				
Investments in subsidiaries	*14*	**454,958**	178,815	132,159
Current assets				
Trade and other receivables	*18*	**62,647**	8,283	42,418
Investments and time deposits	*19*	**–**	–	49,303
Cash and cash equivalents	*20*	**147,393**	108,627	35,712
		210,040	116,910	127,433
Current liabilities				
Trade and other payables	*21*	**57,699**	14,812	4,134
Interest-bearing borrowings	*22*	**166,103**	–	–
Derivative financial liabilities	*22(b)*	**592**	–	–
		224,394	14,812	4,134
Net current (liabilities)/assets		**(14,354)**	102,098	123,299
Total assets less current liabilities		**440,604**	280,913	255,458
Non-current liabilities				
Interest-bearing borrowings	*22*	**116,360**	15,000	–
Convertible bonds	*26*	**91,573**	–	–
Other payables	*21*	**–**	41,979	–
Other non-current liabilities	*23*	**7,335**	7,053	6,472
		215,268	64,032	6,472
NET ASSETS		**225,336**	216,881	248,986

* See note 1(c)(i)

The notes on pages 72 to 160 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in United States dollars)

	Note	**2014** **US$'000**	2013 US$'000 (Restated*)	1 January 2013 US$'000 (Restated*)
CAPITAL AND RESERVES	*29(a)*			
Share capital		**14**	14	14
Reserves		**225,322**	216,867	248,972
TOTAL EQUITY		**225,336**	216,881	248,986

* See note 1(c)(i)

Approved and authorised for issue by the board of directors on 31 March 2015.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014
(Expressed in United States dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2013		14	230,690	–	20,972	6,369	12,131	98,908	369,084	–	369,084
Changes in equity for 2013:											
Profit for the year		–	–	–	–	–	–	23,997	23,997	–	23,997
Other comprehensive income		–	–	–	11,986	–	–	–	11,986	–	11,986
Total comprehensive income		–	–	–	11,986	–	–	23,997	35,983	–	35,983
Dividends approved in respect of the previous year	*29(b)(ii)*	–	–	–	–	–	–	(14,615)	(14,615)	–	(14,615)
Equity-settled share-based transactions	*28(e)*	–	–	–	–	1,813	–	–	1,813	–	1,813
Shares issued under the share option plans	*29(c)(iii)*	–	2,007	–	–	(927)	–	–	1,080	–	1,080
Repurchase of own shares											
– par value paid		–	–	–	–	–	–	–	–	–	–
– premium paid		–	–	–	–	–	–	(2,125)	(2,125)	–	(2,125)
– transfer between reserves		–	–	–	–	–	–	–	–	–	–
Appropriation of statutory general reserve		–	–	–	–	–	5,082	(5,082)	–	–	–
Shares purchased under share award scheme	*28(c)*	–	–	–	–	(2,788)	–	–	(2,788)	–	(2,788)
Shares granted under share award scheme	*28(c)*	–	–	–	–	2,001	–	–	2,001	–	2,001
Balance at 31 December 2013		14	232,697	–	32,958	6,468	17,213	101,083	390,433	–	390,433

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014
(Expressed in United States dollars)

	Note	Attributable to equity shareholders of the Company									
		Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2014		14	232,697	–	32,958	6,468	17,213	101,083	390,433	–	390,433
Changes in equity for 2014:											
Loss for the year		–	–	–	–	–	–	(59,461)	(59,461)	(110)	(59,571)
Other comprehensive income		–	–	–	(6,169)	–	–	–	(6,169)	4	(6,165)
Total comprehensive income		–	–	–	(6,169)	–	–	(59,461)	(65,630)	(106)	(65,736)
Capital contribution from non-controlling interests	*28(d)*	–	–	–	–	3,209	–	–	3,209	1,596	4,805
Equity-settled share-based transactions	*28(e)*	–	–	–	–	1,139	–	–	1,139	–	1,139
Equity component of convertible bonds	*26*	–	–	–	–	10,574	–	–	10,574	–	10,574
Appropriation of statutory general reserve		–	–	–	–	–	3,257	(3,257)	–	–	–
Shares issued under share option scheme	*29(c)(iii)*	–	6,736	–	–	(3,153)	–	–	3,583	–	3,583
Shares purchased under share award scheme	*28(c)*	–	–	–	–	(3,252)	–	–	(3,252)	–	(3,252)
Shares granted under share award scheme	*28(c)*	–	–	–	–	2,197	–	–	2,197	–	2,197
Balance at 31 December 2014		14	239,433	–	26,789	17,182	20,470	38,365	342,253	1,490	343,743

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 31 December 2014
(Expressed in United States dollars)

	Note	**2014 US$'000**	2013 US$'000 (Restated*)
Operating activities			
Cash generated from operations	*20(b)*	**26,242**	66,487
Tax paid:			
– PRC income tax paid		**(7,718)**	(8,719)
– Non-PRC income tax paid		**(718)**	(15)
Net cash generated from operating activities		**17,806**	57,753
Investing activities			
Payment for the purchase of fixed assets		**(53,391)**	(42,352)
Proceeds from sale of fixed assets		**4,896**	31
Government grant received related to fixed assets		**–**	3,813
Payment for intangible assets		**(8,659)**	(9,401)
Placement of deposits with banks with original maturities over three months		**(106,443)**	(37,487)
Uplift of deposits with banks with original maturities over three months		**117,877**	106,285
Increase in pledged deposits		**(27,410)**	(16,964)
Interest received		**3,436**	4,118
Payments for acquisition of subsidiaries		**(279,233)**	(1,939)
Payments for capital contribution to a joint venture		**(5,025)**	–
Net cash (used in)/generated from investing activities		**(353,952)**	6,104

* See note 1(c)(i)

The notes on pages 72 to 160 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 31 December 2014
(Expressed in United States dollars)

	Note	2014 US$'000	2013 US$'000 (Restated*)
Financing activities			
Proceeds from the Otsuka Loans, net of transaction costs	*22(b)*	**199,175**	–
Proceeds from the convertible bonds	*26*	**100,000**	–
Proceeds from other interest-bearing borrowings		**132,083**	66,220
Capital contributions from non-controlling interests		**4,805**	–
Repayments of other interest-bearing borrowings		**(32,382)**	(19,483)
Proceeds from shares issued under the share option plans	*29(c)(iii)*	**3,583**	1,080
Interest paid for the Otsuka Loans	*22(b)*	**(1,352)**	–
Interest paid for the convertible bonds	*26*	**(851)**	–
Interest paid for other interest-bearing borrowings		**(3,594)**	(598)
Payment for finance leases		**(4,207)**	–
Dividends paid to ordinary shareholders		**–**	(14,615)
Payment for repurchase of shares		**–**	(2,125)
Payment for repurchase of shares under share award scheme	*28(c)*	**(3,252)**	(2,788)
Net cash generated from financing activities		**394,008**	27,691
Net increase in cash and cash equivalents		**57,862**	91,548
Cash and cash equivalents at 1 January		**159,903**	65,730
Effect of foreign exchange rate changes		**(2,163)**	2,625
Cash and cash equivalents at 31 December	*20(a)*	**215,602**	159,903

* See note 1(c)(i)

The notes on pages 72 to 160 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 1(c)(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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (collectively 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 as set out in the accounting policies hereunder.

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

(i) Change in presentation currency

The consolidated financial statements previously issued by the Company were presented in Renminbi ("RMB"), the functional currency of the subsidiaries in the People's Republic of China ("PRC") where majority of the Group's operation and business were conducted. Upon the completion of an acquisition of a worldwide hip and knee orthopedic reconstruction business based in the United States ("US") in January 2014 (see note 30), the board of directors considered that the use of United States dollar ("US$") is more meaningful in presenting the operating results and financial position of the Group given the operating scale of the newly acquired US based business is very substantial to the Group. As a result, the directors determined to change the presentation currency of the Group's consolidated financial statements from RMB to US$ during the year. Accordingly, these financial statements are stated in US$, rounded to the nearest thousand, unless otherwise stated.

This change in accounting policy has been applied retrospectively. As a result, the comparative figures in these financial statements have been restated to reflect the change in presentation currency to US$ as if US$ had always been the presentation currency. The change in the presentation currency has no significant impact on the Group's consolidated financial statements presented.

(ii) Application of new and revised HKFRSs

The HKICPA has issued the following amendments to HKFRs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

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

(d) Subsidiaries and non-controlling interests

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

(e) Joint ventures

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Joint ventures (continued)

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

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

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

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

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

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(g) Derivative financial instruments

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

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

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

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

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

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

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

(i) Intangible assets (other than goodwill)

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets (other than goodwill) (continued)

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

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

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

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

(iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(i) Impairment of trade and other receivables (continued)

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- land use rights;
- intangible assets;
- goodwill;
- investments in subsidiaries and a joint venture. and
- other non-current assets

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

- Calculation of recoverable amount

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Inventories (continued)

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

(m) Trade and other receivables

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

(n) Convertible notes

(i) Convertible notes that contain an equity component

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Convertible notes (continued)

(ii) Other convertible notes

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

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

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

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

(o) Interest-bearing borrowings

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

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

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

(q) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Cash and cash equivalents

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

(s) Employee benefits

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

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

(ii) Share-based payments

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

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

The fair value of the amount payable to employees in respect of the long term incentive awards (see note 28(f)), which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at grant date and at the end of each reporting date after taking into account all vesting and non-vesting conditions, including service conditions and non-market performance conditions.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(iii) Termination benefits

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

(t) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

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

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

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

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

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

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

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

  – the same taxable entity; or

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

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

(ii) Other provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Sale of goods

The Group recognises revenue when the customer takes ownership and assumes risk of loss of the goods. For sales of medical devices through appointed sales distributors, the transfer of ownership occurs at the time when the medical devices are delivered or picked up by the distributors from the Group's premises. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

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

(iii) Interest income

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue recognition (continued)

(iv) Government grants

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

(w) Translation of foreign currencies

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

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

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

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

(x) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

(z) Segment reporting

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

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

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 12, 13, 28 and 31 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of inventories

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

(b) Depreciation and amortisation

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

(c) Income tax

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

(d) Fair value of assets acquired and liabilities assumed in business combinations

In connection with acquisitions of subsidiaries through business combinations, the assets acquired and liabilities assumed are adjusted to their estimated fair values on the respective date of acquisition. The determination of the fair values of assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed.

(e) Impairment of assets

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

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

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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:

	2014 US$'000	2013 US$'000
Orthopedics devices	**210,371**	417
Cardiovascular devices		
– Drug eluting stents	**101,947**	111,066
– Others	**9,925**	9,294
Endovascular devices		
– TAA/AAA stent grafts	**11,010**	10,246
– Others	**3,090**	2,593
Electrophysiology devices	**4,807**	2,963
Neurovascular devices	**6,285**	4,631
Surgical devices	**5,802**	8,608
Diabetes and endocrinal devices	**2,047**	1,837
	355,284	151,655

For the year ended 31 December 2014, the Group's customer base is diversified and includes no customer (2013: one 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 geographic locations. 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. The information relating to the newly acquired OrthoRecon Business (see note 30) has been included in the orthopedic devices business segments.

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

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

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

(i) Segment results, assets and liabilities

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

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

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

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	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 management 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 non-current assets								
– 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	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

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2013							
	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 management business US$'000	Total US$'000
Revenue from external customers	417	120,360	12,839	2,963	4,631	8,608	1,837	151,655
Reportable segment net profit/(loss)	(6,289)	47,058	3,396	(2,077)	1,575	96	(922)	42,837
Depreciation and amortisation for the year	1,442	4,595	258	166	181	679	279	7,600
Income tax	312	7,615	955	–	269	14	–	9,165
Write-down of inventories	634	(1,150)	–	–	–	98	(19)	(437)
Impairment losses of non-current assets								
– Intangible assets	495	–	–	–	–	–	–	495
– Goodwill	3,294	–	–	–	–	–	–	3,294
Reportable segment assets	64,102	296,853	8,968	9,242	4,608	41,140	6,073	430,986
Additions to non-current segment assets	3,656	47,484	2,408	2,090	3,883	3,623	89	63,233
Reportable segment liabilities	15,610	87,227	313	1,181	4,967	10,594	4,874	124,766

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2014 US$'000	2013 US$'000
Profit		
Reportable segment net (loss)/profit	**(53,540)**	42,837
Equity-settled share-based payment expenses (note 28(e))	**(1,139)**	(1,813)
Unallocated exchange gain	**16**	889
Unallocated income and expenses	**(4,908)**	(17,916)
Consolidated (loss)/profit for the year	**(59,571)**	23,997
Assets		
Reportable segment assets	**883,574**	430,986
Elimination of inter-segment receivables	**(93,846)**	(33,104)
	789,728	397,882
Unallocated corporate assets:		
– Cash and cash equivalents	**148,128**	119,603
– Others	**1,878**	1,361
	150,006	120,964
Consolidated total assets	**939,734**	518,846
Liabilities		
Reportable segment liabilities	**304,475**	124,766
Elimination of inter-segment payables	**(93,846)**	(33,104)
	210,629	91,662
Deferred tax liabilities (note 24(b))	**2,102**	2,123
Convertible bonds (note 26)	**91,573**	–
Derivative financial liabilities (note 22(b))	**592**	–
Interest-bearing borrowings (note 22)	**282,463**	15,000
Unallocated corporate liabilities	**8,632**	19,628
Consolidated total liabilities	**595,991**	128,413

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographical 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 fixed assets, 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 specified non-current assets is based on the physical location of the asset, in the case of fixed assets, 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

	2014 US$'000	2013 US$'000
The PRC (country of domicile)	**143,084**	145,208
North America	**89,776**	–
Europe	**63,666**	254
Asia	**45,923**	3,602
South America	**10,525**	2,591
Others	**2,310**	–
	212,200	6,447
	355,284	151,655

Specified non-current assets

	2014 US$'000	2013 US$'000
The PRC (country of domicile)	**242,348**	214,711
North America	**150,851**	42
Europe	**5,816**	1
Asia	**8,220**	–
South America	**30**	–
Others	**302**	–
	165,219	43
	407,567	214,754

4 OTHER REVENUE AND NET INCOME

	2014 US$'000	2013 US$'000
Other revenue		
Government grants (note)	**4,836**	4,836
Interest income on bank deposits	**4,536**	2,272
Others	**708**	–
	10,080	7,108

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

	2014 US$'000	2013 US$'000
Other net income		
Net loss on disposal of property, plant and equipment	**(1,493)**	(5)
Net foreign exchange (loss)/gain	**(1,504)**	27
Changes in fair value of embedded financial derivatives (note 22(b))	**5,101**	–
Others	**(159)**	190
	1,945	212

5 (LOSS)/PROFIT BEFORE TAXATION

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

	2014 US$'000	2013 US$'000
(a) Finance costs		
Interest on the Otsuka loans (note 22(b))	**5,333**	–
Interest on the convertible bonds (note 26)	**2,998**	–
Interest on other interest-bearing borrowings	**4,425**	975
Finance charges on obligations under finance leases	**55**	–
Others	**690**	153
Total interest expense on financial liabilities not at fair value through profit or loss	**13,501**	1,128
Less: interest expense capitalised into property, plant and equipment*	**(545)**	(73)
	12,956	1,055

* The borrowing costs have been capitalised at a rate of 6.4% per annum (2013: 6.4%).

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

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

	2014 US$'000	2013 US$'000
(b) Staff costs		
Contributions to defined contribution retirement plan	**9,052**	6,923
Equity-settled share-based payment expenses (note 28)	**3,336**	3,814
Cash-settled share-based payment expenses (note 28)	**1,245**	–
Salaries, wages and other benefits	**130,749**	36,419
	144,382	47,156

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's employees in Japan are covered by an unfunded defined benefit retirement plan. The Group has recorded its liability associated with this plan in non-current other payables.

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

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

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

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

	2014 US$'000	2013 US$'000
(c) Other items		
Amortisation#		
– land use rights (note 11)	408	388
– intangible assets (note 12)	4,885	1,049
	5,293	1,437
Depreciation# (note 11)	32,342	5,697
Impairment losses:		
– trade and other receivables(note 18(b))	1,746	848
– intangible assets (note 12)	1,050	495
– goodwill (note 13)	23,295	3,294
	26,091	4,637
Operating lease charges: minimum lease payments		
– hire of property and plant	5,721	1,175
Auditors' remuneration:		
– audit services	1,206	485
– non-audit services	2,072	3,231
	3,278	3,716
Research and development costs (other than amortisation costs of intangible assets)	53,055	29,195
Cost of inventories# (note 17(b))	122,027	34,830

Cost of inventories includes US$50,690,000 (2013: US$12,880,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

Impairment loss 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$27,862,000 (2013: US$12,969,000), depreciation of the relevant property, plant and equipment of US$2,319,000 (2013: US$1,420,000) and cost of inventories of US$8,556,000 (2013: US$6,053,000), which are included in the total staff cost as disclosed in note 5(b), depreciation as disclosed in note 5(c) and cost of inventories as disclosed in note 17(b), respectively.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2014 US$'000	2013 US$'000
Current tax-PRC Corporate Income Tax ("CIT")		
Provision for the year	**4,755**	9,777
(Over)/under provision in respect of prior years	**(112)**	286
	4,643	10,063
Current tax-other jurisdictions		
Provision for the year	**954**	4
Deferred tax		
Origination and reversal of temporary differences	**460**	(902)
	6,057	9,165

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.

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2013:16.5%) of the estimated assessable profits.

Pursuant to the Corporate Income Tax Law of the PRC, all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25% except for the following entities:

According to Guoshuihan 2009 No. 203, if an entity is certified as an "advanced and new technology enterprise", it is entitled to a preferential income tax rate of 15%. Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai"), Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") and Suzhou Health Medical Appliance Co., Ltd. ("Suzhou Health") obtained the certificate of "advanced and new technology enterprise" dated 4 September 2014, 10 October 2014 and 3 December 2013, respectively with an effective period of three years. The provision for PRC corporate income tax for MP Shanghai, Dongguan Kewei and Suzhou Health is calculated by applying the income tax rate of 15% in 2014 (2013: 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%.

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

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

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 2014, 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 profit at applicable tax rates:

	2014 **US$'000**	2013 US$'000
(Loss)/profit before taxation	**(53,514)**	33,162
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the countries concerned	**(12,699)**	13,397
Effect of PRC preferential tax rate	**(4,246)**	(5,813)
Effect of non-deductible equity-settled share-based payment expenses	**285**	453
Effect of other non-deductible expenses	**1,140**	1,160
Effect of non-taxable revenue	**(261)**	–
Effect of deemed taxable income (note)	**292**	293
Effect of super-deduction on research and development expenses	**(1,874)**	(1,710)
Effect of tax losses not recognised	**23,479**	1,099
(Over)/under provision in respect of prior years	**(59)**	286
Actual income tax expense	**6,057**	9,165

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.

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the Hong Kong Companies Ordinance (Cap.32) is as follows:

	2014					
	Directors' fees US$'000	Salaries, allowances and benefits-in-kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment expenses US$'000	Total US$'000
Executive directors						
Zhaohua Chang	–	98	–	–	107	205
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Weiwei Chen (appointed on 30 June 2014)	–	–	–	–	–	–
Ganjin Chen (resigned on 11 June 2014)	–	–	–	–	–	–
Independent non–executive directors						
Zezhao Hua	35	–	–	–	–	35
Jonathan Chou	40	–	–	–	–	40
Guoen Liu	35	–	–	–	–	35
	110	98	–	–	107	315

7 DIRECTORS' REMUNERATION (CONTINUED)

	2013					
	Directors' fees US$'000	Salaries, allowances and benefits-in-kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment expenses US$'000	Total US$'000
Executive directors						
Zhaohua Chang (note)	–	301	358	–	339	998
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Lei Ding (resigned on 9 December 2013)	–	–	–	–	–	–
Ganjin Chen (appointed on 9 December 2013)	–	–	–	–	–	–
Independent non–executive directors						
Zezhao Hua	24	–	–	–	–	24
Jonathan Chou	29	–	–	–	–	29
Guoen Liu	24	–	–	–	–	24
	77	301	358	–	339	1,075

Note: In 2013, US$196,000 and US$361,000 out of Zhaohua Chang's remuneration were paid to We'Tron Capital Limited ("We'Tron") and donated to Maxwell Maxcare Science Foundation Limited in the Company's name, respectively.

During the year ended 31 December 2014, there were no amounts paid or payable by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration (2013: Nil).

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2013: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2013: four) individual are as follows:

	2014 US$'000	2013 US$'000
Salaries and other benefits	**1,146**	886
Retirement scheme contributions	**40**	29
Discretionary bonuses	**778**	642
Equity-settled share-based payment expenses	**77**	367
Cash-settled share-based payment expenses	**247**	–
	2,288	1,924

The emoluments of the four (2013: four) individuals with the highest emoluments are within the following bands:

	2014 Number of Individuals	2013 Number of Individuals
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	2
HK$4,000,001 to HK$4,500,000	**1**	1
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$7,000,000	**1**	–

During the year ended 31 December 2014, there were no amounts paid or payable by the Company to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office; and there was no arrangement under which the above highest paid individuals waived or agreed to waive any remuneration (2013: Nil).

9 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of US$5,732,000 (2013: a loss of US$17,471,000) which has been dealt with in the financial statements of the Company (note 29(a)).

Details of dividends paid and payable to equity shareholders of the Company are set out in note 29(b).

10 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of US$59,461,000 (2013: profit of US$23,997,000) and the weighted average of 1,408,536,000 ordinary shares (2013: 1,401,895,000 ordinary shares).

(i) Weighted average number of ordinary shares

	2014 Number of shares '000	2013 Number of shares '000
Issued ordinary shares at 1 January	**1,408,995**	1,406,730
Effect of share options exercised	**7,576**	3,587
Effect of purchased of own shares	**–**	(3,215)
Effect of shares under share award scheme	**(8,035)**	(5,207)
Weighted average number of ordinary shares at 31 December	**1,408,536**	1,401,895

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of US$62,074,000 (2013: US$23,997,000) and the weighted average number of ordinary shares of 1,453,991,000 shares (2013: 1,434,739,000 shares) after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

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

	2014 US$'000	2013 US$'000
(Loss)/profit attributable to equity shareholders of the Company (basic)	**(59,461)**	23,997
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 22(b))	**(5,101)**	–
(Loss)/profit attributable to equity shareholders of the Company (diluted)	**(62,074)**	23,997

10 (LOSS)/EARNINGS PER SHARE (CONTINUED)

(b) Diluted (loss)/earnings per share (continued)

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

	2014 Number of shares '000	2013 Number of shares '000
Weighted average number of ordinary shares during the year	**1,408,536**	1,401,895
Effect of the potential conversion of the Term B Loan	**45,455**	–
Effect of deemed issue of shares under the Company's option scheme at nil consideration	**–**	32,844
Weighted average number of ordinary shares during the year	**1,453,991**	1,434,739

The calculation of diluted loss per share amount for the year ended 31 December 2014 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 (note 26) into ordinary shares during the year, as they all have an anti-dilutive effect on the basic loss per share amount for the year.

11 FIXED ASSETS

(a) The Group

	Land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Land use rights US$'000	Total US$'000
Cost:									
At 1 January 2013	34,047	6,788	30,602	7,364	2,821	35,894	117,516	13,660	131,176
Exchange adjustments	1,314	301	1,385	299	108	1,990	5,397	647	6,044
Transfer	1,005	1,343	655	59	–	(3,062)	–	–	–
Additions	722	814	10,387	1,219	170	32,780	46,092	6,274	52,366
Disposals	–	(2)	(20)	(73)	(67)	–	(162)	–	(162)
At 31 December 2013	37,088	9,244	43,009	8,868	3,032	67,602	168,843	20,581	189,424
At 1 January 2014	**37,088**	**9,244**	**43,009**	**8,868**	**3,032**	**67,602**	**168,843**	**20,581**	**189,424**
Exchange adjustments	**(11)**	**(68)**	**(2,389)**	**(285)**	**(30)**	**(879)**	**(3,662)**	**(203)**	**(3,865)**
Transfer	**64,278**	**2,350**	**10,973**	**5,562**	**–**	**(83,163)**	**–**	**–**	**–**
Additions	**19,624**	**3,574**	**23,052**	**7,868**	**59**	**25,633**	**79,810**	**–**	**79,810**
Additions through acquisition (note 30)	**20,180**	**181**	**45,237**	**18,033**	**–**	**11,248**	**94,879**	**–**	**94,879**
Disposals	**(135)**	**(354)**	**(14,256)**	**(2,738)**	**(222)**	**–**	**(17,705)**	**–**	**(17,705)**
At 31 December 2014	**141,024**	**14,927**	**105,626**	**37,308**	**2,839**	**20,441**	**322,165**	**20,378**	**342,543**
Accumulated depreciation and amortisation:									
At 1 January 2013	2,161	3,282	13,866	4,545	1,732	–	25,586	670	26,256
Exchange adjustments	101	147	578	192	72	–	1,090	34	1,124
Charge for the year	960	1,128	2,687	1,035	353	–	6,163	388	6,551
Written back on disposals	–	–	(11)	(59)	(56)	–	(126)	–	(126)
At 31 December 2013	3,222	4,557	17,120	5,713	2,101	–	32,713	1,092	33,805
At 1 January 2014	**3,222**	**4,557**	**17,120**	**5,713**	**2,101**	**–**	**32,713**	**1,092**	**33,805**
Exchange adjustments	**(9)**	**(41)**	**(608)**	**(124)**	**(20)**	**–**	**(802)**	**(8)**	**(810)**
Charge for the year	**2,864**	**1,268**	**19,988**	**8,558**	**310**	**–**	**32,988**	**408**	**33,396**
Written back on disposals	**(11)**	**(215)**	**(10,024)**	**(802)**	**(160)**	**–**	**(11,212)**	**–**	**(11,212)**
At 31 December 2014	**6,066**	**5,569**	**26,476**	**13,345**	**2,231**	**–**	**53,687**	**1,492**	**55,179**

For the year ended 31 December 2014, depreciation charge of US$646,000 (2013: US$466,000) has been included in the capitalised development cost in intangible assets. Amortisation of land use right of US$408,000 (2013: US$388,000) and depreciation charge of US$32,342,000 (2013: US$5,697,000) has been included in the consolidated statement of profit or loss for the year ended 31 December 2014.

11 FIXED ASSETS (CONTINUED)

(a) The Group (continued)

	Land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Land use rights US$'000	Total US$'000
Impairment:									
At 1 January 2013	–	–	668	9	20	–	697	–	697
Exchange adjustment	–	–	25	–	1	–	26	–	26
Charge for the year	–	–	–	–	–	–	–	–	–
Written back on disposals	–	–	–	(1)	–	–	(1)	–	(1)
At 31 December 2013	–	–	693	8	21	–	722	–	722
At 1 January 2014	**–**	**–**	**693**	**8**	**21**	**–**	**722**	**–**	**722**
Exchange adjustments	**–**	**–**	**(7)**	**–**	**–**	**–**	**(7)**	**–**	**(7)**
Written back on disposals	**–**	**–**	**–**	**–**	**(17)**	**–**	**(17)**	**–**	**(17)**
At 31 December 2014	**–**	**–**	**686**	**8**	**4**	**–**	**698**	**–**	**698**
Net book value:									
At 31 December 2014	**134,958**	**9,358**	**78,464**	**23,955**	**604**	**20,441**	**267,780**	**18,886**	**286,666**
At 31 December 2013	33,866	4,687	25,196	3,147	910	67,602	135,408	19,489	154,897
At 1 January 2013	31,886	3,506	16,068	2,810	1,069	35,894	91,233	12,990	104,223

11 FIXED ASSETS (CONTINUED)

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

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
In US			
– medium-term leases	**15,169**	–	–
– freehold	**4,839**	–	–
	20,008	–	–
In the PRC			
– medium-term leases	**133,836**	53,355	44,876
	153,844	53,355	44,876
Representing:			
Land and buildings held for own use, carried at cost	**134,958**	33,866	31,886
Land use rights	**18,886**	19,489	12,990
	153,844	53,355	44,876

(c) As at 31 December 2014, land use rights and buildings held for own use with net book value of US$4,862,000 and US$76,713,000 respectively (2013: land use rights and contraction in progress with net book value of US$5,022,000 and US$53,107,000 respectively) have been pledged as security for a banking facility (see note 22(a)).

As at 31 December 2014, buildings held for own use with net book value of US$3,750,000 (2013: US$4,096,000) have been pledged as security for the SMFA loan (see note 22(c)).

(d) Fixed assets held under finance leases

The Group leases certain machinery equipment under finance leases expiring from one to two years. At the end of the reporting period, the net book value of machinery equipment held under finance leases was US$4,800,000 (2013: $nil).

12 INTANGIBLE ASSETS

The Group

	Technologies US$'000	Products licences US$'000	Capitalised development costs US$'000	Customer contracts and related customer relationship US$'000	Trademark and others US$'000	Total US$'000
Cost						
At 1 January 2013	1,293	9,044	13,316	2,672	48	26,373
Exchange adjustments	49	339	735	101	2	1,226
Additions	–	–	10,868	–	–	10,868
At 31 December 2013	1,342	9,383	24,919	2,773	50	38,467
At 1 January 2014	1,342	9,383	24,919	2,773	50	38,467
Exchange adjustments	(14)	(93)	(266)	(28)	(1)	(402)
Additions through acquisition of a subsidiary (note 30)	14,000	–	–	7,223	–	21,223
Additions	–	–	10,803	–	487	11,290
At 31 December 2014	15,328	9,290	35,456	9,968	536	70,578
Accumulated amortisation:						
At 1 January 2013	266	635	–	205	48	1,154
Exchange adjustments	10	39	–	15	2	66
Charge for the year	–	677	–	372	–	1,049
At 31 December 2013	276	1,351	–	592	50	2,269
At 1 January 2014	276	1,351	–	592	50	2,269
Exchange adjustments	(3)	(15)	(3)	(7)	(1)	(29)
Charge for the year	1,365	686	1,509	1,303	22	4,885
At 31 December 2014	1,638	2,022	1,506	1,888	71	7,125
Impairment:						
At 1 January 2013	1,027	332	–	–	–	1,359
Exchange adjustments	39	25	–	–	–	64
Charge for the year	–	495	–	–	–	495
At 31 December 2013	1,066	852	–	–	–	1,918
At 1 January 2014	1,066	852	–	–	–	1,918
Exchange adjustments	(11)	(10)	–	–	–	(21)
Charge for the year	–	–	–	1,050	–	1,050
At 31 December 2014	1,055	842	–	1,050	–	2,947
Net book value:						
At 31 December 2014	12,635	6,426	33,950	7,030	465	60,506
At 31 December 2013	–	7,180	24,919	2,181	–	34,280
At 1 January 2013	–	8,077	13,316	2,467	–	23,860

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

12 INTANGIBLE ASSETS (CONTINUED)

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

	2014	2013
	US$'000	US$'000
Research and development costs	**1,509**	–
Distribution costs	**983**	1,049
Administrative expenses	**2,393**	–
	4,885	1,049

During 2014, as a result of the development and launch of new trauma and spine products under the orthopedic business segment, the sales to certain customers who used to purchase the old series of trauma and spine products from the Group have been worse than expected. Accordingly, the Group has estimated the recoverable amount of the customer relationship associated with the orthopedics business approximates zero and a full impairment loss provision of US$1,050,000 had been made in 2014.

13 GOODWILL

The Group

	US$'000
Cost:	
At 1 January 2013	28,255
Exchange adjustments	1,059
At 31 December 2013 and 1 January 2014	29,314
Exchange adjustments	(634)
Additions	54,458
At 31 December 2014	83,138
Accumulated impairment losses:	
At 1 January 2013	335
Exchange adjustments	108
Impairment loss	3,294
At 31 December 2013 and 1 January 2014	3,737
Exchange adjustments	(423)
Impairment loss	23,295
At 31 December 2014	26,609
Carrying amount:	
At 31 December 2014	56,529
At 31 December 2013	25,577
At 1 January 2013	27,920

13 GOODWILL (CONTINUED)

Impairment tests for cash-generating unit containing goodwill

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

	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Orthopedics devices business			
– OrthoRecon Business	**54,458**	–	–
– Others	**1,067**	7,581	10,574
Cardiovascular devices business	**–**	5,197	–
Surgical management business	**1,004**	12,799	–
Unallocated goodwill	**–**	–	17,346
	56,529	25,577	27,920

Goodwill of US$54,458,000 arising from the acquisition of the OrthoRecon Business from Wright Medical was recorded during year ended 31 December 2014 (see note 30).

During the six months ended 30 June 2014, as a result of the severe market competition, the profitability of the Group's certain accessory products under the cardiovascular devices segment has declined significantly. Given the economic performance of the assets associated with those accessory products was worse than expected and based on the information available, the Group's management expects that there will be significant declines in forecasted turnover and profits of accessory products under the cardiovascular devices segment, which is an indicator of impairment for goodwill allocated to cardiovascular devices segment. Management estimated the recoverable amount of those related assets which generates cash inflows independently from other assets under the cardiovascular devices segment (the "cardiovascular CGU"). As at 30 June 2014, the carrying value of the cardiovascular CGU exceeds its recoverable amount by US$5,125,000. Accordingly, an impairment loss of US$5,125,000 was recognised in respect of the cardiovascular CGU and has been allocated to reduce the carrying amount of the goodwill allocated to the cardiovascular CGU at 30 June 2014 to zero.

The recoverable amount of the cash-generating unit amounted to US$678,000 as at 30 June 2014, which is determined based on value-in-use calculations. These calculation use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the long-term inflation rate in the PRC. The cash flows are discounted using a discount rate of 25%. The discount rate used is pre-tax and reflected specific risks relating to the cardiovascular CGU's business activities.

(Expressed in United States dollars unless otherwise indicated)

13 GOODWILL (CONTINUED)

Impairment tests for cash-generating unit containing goodwill (continued)

As at 31 December 2014, 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 period. Cash flows beyond the five-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	13%~20%	4%~12%	14%~28%
Gross profit ratio	43%~49%	65%~68%	52%~65%
Estimated weighted average growth rate	3%	3%	3%
Discount rate	18%	22%	21%

The impairment loss recognised during the year ended 31 December 2014 relates to the Group's orthopedics devices business-others, surgical management business and cardiovascular devices business.

Orthopedics devices business – Others

As a result of the new product development, orthopedics devices business segment commenced the sales of new series of trauma and spine products during 2014. Due to the severe market competition, the profitability of the Group's trauma and spine products were worse than expected for the year ended 31 December 2014. The carrying value of the CGU exceeds its recoverable amount by US$6,451,000 as at 31 December 2014. Accordingly, an impairment loss of US$6,451,000 is recognised relating to the Group's business activities of trauma and spine products based in the PRC and has been allocated to reduce the carrying amount of the goodwill. As the carrying amount of the CGU has been reduced to its recoverable amount of US$8,102,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

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 2014. The carrying value of the CGU exceeds its recoverable amount by US$11,719,000 as at 31 December 2014. Accordingly, an impairment loss of US$11,719,000 is recognised relating to the Group's surgical management business activities based in the PRC and has been allocated to reduce the carrying amount of the goodwill. As the carrying amount of the CGU has been reduced to its recoverable amount of US$12,574,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

14 INVESTMENTS IN SUBSIDIARIES

	The Company		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Unlisted shares, at cost	**454,958**	178,815	132,159

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

Name of company	Place and date of incorporation/ establishment/ acquisition	Issued, fully paid up and registered capital	Attributable equity interest Direct %	Indirect %	Principal activity
MP Shanghai (上海微創醫療器械(集團)有限公司，原名"微創醫療器械(上海)有限公司") *(i)	The PRC, 15 May 1998	US$50,000,000	85.6	14.4	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai") 上海微創生命科技有限公司) *(ii)	The PRC, 28 April 2008	RMB58,000,000	–	100	Manufacturing, distribution, research and development of medical devices
MicroPort Lifesciences (Beijing) Co., Ltd. (微創(北京)生命醫學科技有限公司) *(ii)	The PRC, acquired on 2 June 2008	RMB3,000,000	–	100	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Orthopedics Co., Ltd. ("MP Orthopedics") (上海微創骨科醫療科技有限公司) *(ii)	The PRC, 18 May 2009	RMB195,000,000	–	100	Manufacturing, distribution, research and development of orthopedics devices
Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司)*(ii)	The PRC, 31 August 2010	RMB45,000,000	–	100	Distribution, research and development of electrophysiology devices

(Expressed in United States dollars unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment/ acquisition	Issued, fully paid up and registered capital	Attributable equity interest Direct %	Indirect %	Principal activity
Suzhou Health Medical Appliance Co., Ltd. ("Suzhou Health") (蘇州海歐斯醫療器械有限公司)*(ii)	The PRC, acquired on 29 November 2011	RMB30,827,703	–	100	Manufacturing distribution, research and development of orthopedics devices
MicroPort Orthopedics (Suzhou) Co., Ltd. (微創骨科醫療科技(蘇州)有限公司) *(iii)	The PRC, 30 March 2012	US$30,500,000	–	100	Distribution, research and development of orthopedics devices
MicroPort Endovascular (Shanghai) Co., Ltd. (微創心脈醫療科技(上海)有限公司) *(iii)	The PRC, 17 August 2012	RMB52,941,200	–	85	Distribution, research and development of endovascular devices
Dongguan Kewei (東莞科威醫療器械有限公司) *(ii)	The PRC, acquired on 20 September 2012	RMB45,000,000	–	100	Manufacturing, distribution, research and development of surgical devices
D-pulse Medical (Beijing) Co., Ltd. ("D-pulse") (龍脈醫療器械(北京)有限公司) *(iii)	The PRC, acquired on 5 November 2012	US$2,000,000	–	100	Manufacturing, distribution, research and development of cardiovascular devices
MicroPort Orthopedics Inc.	The US, acquired on 10 January 2014	US$1	–	100	Manufacturing, distribution, research and development of medical devices
MicroPort Orthopedics S.R.L.	Italy, acquired on 10 January 2014	EUR10,000	–	100	Distribution, research and development of medical devices
MicroPort Orthopedics Japan K.K.	Japan, acquired on 10 January 2014	JPY100,000,000	–	100	Distribution of medical devices
MicroPort Orthopedics Ltd.	Canada, acquired on 10 January 2014	CAD6,514,941	–	100	Distribution of medical devices
MicroPort Scientific Cöperatief U.A.	The Netherlands, acquired on 10 January 2014	–	–	100	Investment holding

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment/ acquisition	Issued, fully paid up and registered capital	Attributable equity interest Direct %	Indirect %	Principal activity
MicroPort Orthopedics B.V.	The Netherlands, acquired on 10 January 2014	EUR1	–	100	Manufacturing, distribution, research and development of medical devices
MicroPort Orthopedics GmbH	Germany, acquired on 10 January 2014	EUR25,000	–	100	Distribution, research and development of medical devices
MicroPort Orthopedics SAS	France, acquired on 10 January 2014	EUR37,000	–	100	Distribution, research and development of medical devices
MicroPort Orthopedics NV	Belgium, acquired on 10 January 2014	EUR61,500	–	100	Distribution, research and development of medical devices
MicroPort Orthopedics Limited	United Kingdom, acquired on 10 January 2014	GBP1	–	100	Distribution of medical devices
MicroPort Orthopedics Holdings Inc.	The US, acquired on 10 January 2014	US$1	–	100	Investment holding

* The English translation of the entities' names are for reference only. The official names of these entities are in Chinese.
(i) These subsidiaries are wholly foreign-owned enterprises.
(ii) These subsidiaries are domestic enterprises.
(iii) These subsidiaries are sino-foreign equity joint venture enterprises. These entities are accounted for as the Group's subsidiaries as they are controlled by the Group.

The directors are of the view that the Group has no individually material non-controlling interest for the year ended 31 December 2014.

15 INTEREST IN A JOINT VENTURE

	The Group		
	2014 US$'000	2013 US$'000	1 January 2013 US$'000
Share of net assets	**3,866**	–	–

Details of the Group's interest in a joint venture are as follows:

15 INTEREST IN A JOINT VENTURE (CONTINUED)

Name of joint venture	Form of business structure	Place of establishment	Proportion of ownership held by the Group	Particulors of issued and paid up capital	Principal activities
MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM") (創領心律管理醫療器械(上海)有限公司)*	Incorporated	The PRC	51%	Registered capital RMB 122,000,000	Manufacturing, distribution, research and development of cardiac rhythm management devices

* The English translation of the entity's name is for refrence only. The official name of the entity is in Chinese.

MicroPort Sorin CRM was established by MP Shanghai, a wholly owned PRC subsidiary of the Company, and Sorin CRM Holdings SAS ("Sorin") in 2014. MP Shanghai holds 51% interests in MicroPort Sorin CRM and Sorin holds the remaining 49% interests. Pursuant to the terms of the joint venture agreement and articles of association of MicroPort Sorin CRM, management of the Group determine that MicroPort Sorin CRM is a joint venture. Accordingly, the interest in this joint venture is accounted for under the equity method.

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

	2014 US$'000
Gross amounts of MicroPort Sorin CRM	
Non-current assets	1,225
Current assets	8,334
Current liabilities	(1,979)
Equity	7,580
Included in the above assets and liabilities:	
Cash and cash equivalents	4,229
Revenue	12
Loss for the year	(2,351)
Other comprehensive income	57
Total comprehensive income	(2,294)
Included in the above loss:	
Depreciation and amortisation	75
Interest income	7
Reconciled to the Group's interest in MicroPort Sorin CRM:	
Gross amounts of MicroPort Sorin CRM's net assets	7,580
Group's effective interest	51%
Group's share of MicroPort Sorin CRM's net assets and carrying amount in the consolidated financial statements	3,866

16 OTHER NON-CURRENT ASSETS

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Prepaid royalty	**6,033**	–	–
Deposits	**560**	–	–
Others	**220**	–	–
	6,813	–	–

The prepaid royalty represents up front payments made to buy out certain royalty agreements with health care professionals such as surgeons who help in designing orthopedics products. The prepaid royalty will be amortised over the remaining agreement period based on actual sales. The remaining periods of these agreements range from 5 to 7 years. The prepaid royalty expected to be amortised within one year is classified as "current" and included in trade and other receivables in note 18.

17 INVENTORIES

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

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Raw materials	**13,614**	9,369	6,380
Work in progress	**19,986**	2,764	2,446
Finished goods	**76,301**	8,181	5,915
	109,901	20,314	14,741

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

	The Group	
	2014	2013
	US$'000	US$'000
Carrying amount of inventories sold	**111,103**	29,214
Increase/(reversal) of inventory provision	**2,368**	(437)
Cost of inventories sold	**113,471**	28,777
Cost of inventories directly recognised as research and development costs and distribution costs	**8,556**	6,053
	122,027	34,830

18 TRADE AND OTHER RECEIVABLES

	The Group			The Company		
	2014	2013	1 January 2013	**2014**	2013	1 January 2013
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Trade debtors:						
– third party customers	**100,263**	58,623	64,437	**–**	–	–
– related parties (note 33(c))	**1,507**	1,231	949	**–**	–	–
	101,770	59,854	65,386	**–**	–	–
Less: Allowance for doubtful debts (note 18(b))	**(3,896)**	(2,175)	(1,261)	**–**	–	–
	97,874	57,679	64,125	**–**	–	–
Other debtors	**11,018**	3,109	3,308	**4,008**	1,233	1,718
Income tax recoverable	**315**	–	–	**–**	–	–
Amounts due from subsidiaries	**–**	–	–	**58,639**	7,050	40,700
Loans and receivables	**109,207**	60,788	67,433	**62,647**	8,283	42,418
Deposits and prepayments	**12,723**	2,476	1,597	**–**	–	–
	121,930	63,264	69,030	**62,647**	8,283	42,418

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

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors 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:

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Within 1 month	**30,602**	15,844	14,913
1 to 3 months	**39,745**	24,052	22,137
3 to 12 months	**22,456**	14,503	25,335
More than 12 months	**5,071**	3,280	1,740
	97,874	57,679	64,125

Trade receivables are due within 30 to 360 days from the date of billing. Further details of the Group's credit policy are set out in note 31(a).

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(k) (i)).

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

	The Group	
	2014	2013
	US$'000	US$'000
At 1 January	**2,175**	1,261
Impairment loss recognised	**1,746**	848
Exchange adjustments	**(25)**	66
At 31 December	**3,896**	2,175

The Group's trade debtors of US$3,896,000 (2013: US$2,175,000) were individually determined to be impaired as at 31 December 2014. 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:

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Neither past due nor impaired	**87,246**	45,996	56,210
Less than 1 month past due	**3,292**	3,505	1,099
1 to 3 months past due	**1,923**	1,793	1,648
More than 3 months past due	**5,413**	6,385	5,168
	10,628	11,683	7,915
	97,874	57,679	64,125

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors that are not impaired (continued)

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19 INVESTMENTS AND TIME DEPOSITS

	The Group			The Company		
	2014	2013	1 January 2013	**2014**	2013	1 January 2013
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Current						
Deposits with original maturities over three months	**26,502**	38,285	105,322	**–**	–	49,303
Pledged deposits with original maturities within one year	**34,177**	18,037	681	**–**	–	–
	60,679	56,322	106,003	**–**	–	49,303
Non-current						
Pledged deposits with original maturities after one year	**11,440**	–	–	**–**	–	–

Included in pledged deposits at 31 December 2014, US$106,000 (2013: US$107,000) and US$44,942,000 (2013: US$17,331,000) were pledged as security for the long term loan from Shanghai Municipal Financial Administration ("SMFA") (note 22(c)) and a banking facility (note 22(a)), respectively.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group			The Company		
	2014	2013	1 January 2013	**2014**	2013	1 January 2013
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Cash at bank and in hand	**215,602**	159,903	65,730	**147,393**	108,627	35,712

As at 31 December 2014, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to US$29,405,000 (2013: US$38,971,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

20 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

	Note	2014 US$'000	2013 US$'000
(Loss)/profit before taxation		**(53,514)**	33,162
Adjustments for:			
Amortisation of land use rights	*5(c)*	**408**	388
Amortisation of intangible assets	*5(c)*	**4,885**	1,049
Depreciation	*5(c)*	**32,342**	5,697
Impairment loss on intangible assets	*5(c)*	**1,050**	495
Impairment loss on goodwill	*5(c)*	**23,295**	3,294
Finance costs	*5(a)*	**12,211**	902
Interest income	*4*	**(4,536)**	(2,272)
Changes in fair value of embedded Financial derivatives	*4*	**(5,101)**	–
Net loss on disposal of property, plant and equipment	*4*	**1,493**	5
Share of losses of a joint venture		**1,192**	–
Equity-settled share-based payment and share award scheme expenses	*28(c)&(e)*	**3,336**	3,814
Changes in working capital:			
Increase in inventories		**(13,324)**	(4,914)
Decrease in trade and other receivables		**2,097**	6,815
Increase in trade and other payables		**8,289**	16,762
Increase in deferred income		**12,119**	1,290
Cash generated from operations		**26,242**	66,487

21 TRADE AND OTHER PAYABLES

	The Group			The Company		
	2014	2013	1 January 2013	**2014**	2013	1 January 2013
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Current						
Trade payables	**55,226**	11,964	9,240	**–**	–	–
Other payables and accrued charges	**52,419**	32,529	18,075	**11,851**	10,780	345
Amounts due to subsidiaries (note)	**–**	–	–	**45,759**	3,951	3,707
Dividends payable to ordinary shareholders	**89**	89	87	**89**	81	82
	107,734	44,582	27,402	**57,699**	14,812	4,134
Advances received	**915**	924	409	**–**	–	–
	108,649	45,506	27,811	**57,699**	14,812	4,134
Non-current						
Other payables and accrued charges	**1,793**	–	–	**–**	–	–
Amounts due to subsidiaries (note)	**–**	–	–	**–**	41,979	–
	1,793	–	–	**–**	41,979	–

Note: Pursuant to an agreement between the Company and MP Shanghai in August 2013, the Company needs to repay the amount in August 2015 at an annual fixed interest rate of 2%.

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:

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Within 1 month	**17,681**	8,440	7,528
Over 1 month but within 3 months	**11,137**	1,638	453
Over 3 months but within 6 months	**275**	372	164
Over 6 months but within 1 year	**26,133**	1,514	1,095
	55,226	11,964	9,240

22 INTEREST-BEARING BORROWINGS

At 31 December 2014, the interest-bearing borrowings were repayable as follows:

	The Group			The Company		
	2014	2013	1 January 2013	**2014**	2013	1 January 2013
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Within 1 year or on demand	**215,897**	29,629	3,260	**166,103**	–	–
After 1 year but within 2 years	**43,173**	1,737	81	**41,448**	–	–
After 2 year but within 5 years	**89,644**	20,227	256	**74,912**	15,000	
After 5 years	**–**	–	93	**–**	–	–
	132,817	21,964	430	**116,360**	15,000	–
	348,714	51,593	3,690	**282,463**	15,000	–

At 31 December 2014, the interest-bearing borrowings were secured as follows:

		The Group			The Company		
	Note	**2014**	2013	1 January 2013	**2014**	2013	1 January 2013
		US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Bank loans							
– secured	(a)	**57,813**	23,253	3,182	**40,000**	15,000	–
– unsecured	(a)	**92,977**	27,895	–	**45,000**	–	–
		150,790	51,148	3,182	**85,000**	15,000	–
Secured Otsuka Loans	(b)	**197,463**	–	–	**197,463**	–	–
Secured loan from SMFA	(c)	**461**	445	508	**–**	–	–
		348,714	51,593	3,690	**282,463**	15,000	–

22 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) Bank loans

At 31 December 2014, a banking facility of the Company of US$40,000,000 (2013: US$15,000,000) is secured by mortgages over MP Shanghai's deposits with banks of US$44,942,000 (2013: US$17,331,000).

At 31 December 2014, the banking facilities of MP Shanghai of US$17,813,000 (2013: US$8,253,000) are secured by mortgages over certain land use rights and buildings hold for own use with an aggregate carrying value of US$4,862,000 and US$76,713,000, respectively (2013: land use rights and construction in progress with net book value of US$ 5,022,000 and US$ 53,107,000, respectively).

One of the Group's banking facilities of US$5,000,000 (2013: US$11,389,000) 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 2014 none of the covenants relating to drawn down facilities had been breached.

(b) Otsuka Loans

For the purpose of financing the acquisition of a worldwide hip and knee orthopedic reconstruction business (see note 30), 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. The grant of the above credit facility by Otsuka Medical Devices is conditional on an purchase option agreement entered into by the Group and Otsuka Medical Devices, pursuant to which Otsuka Medical Devices shall have the option to purchase the entire equity interest in Wright Medical Japan K.K., a subsidiary acquired by the Group in the aforementioned acquisition, at the cash consideration of US$60,000,000 (the "Purchase Option"). The Purchase Option is exercisable at Otsuka Medical Devices' sole discretion at any time during the two-month period commencing 90 days before the maturity of the Term A Loan. The Otsuka loans are guaranteed by certain subsidiaries of the Company and are secured by the equity interests of certain subsidiaries of the Company and by substantially all of the assets of the aforementioned acquisition.

On 10 January 2014, the Company fully drew down the Otsuka Loans.

The Term A Loan is of a principal amount of US$60,000,000 and has a maturity date falling one year after drawdown. The Purchase Option granted in connection with the Term A Loan is considered as a derivative and the host contract of the Term A Loan is a loan liability.

The Term B Loan is of a principal amount of US$40,000,000 and has a maturity date falling three years after drawdown. Term B Loan contains a conversion option (the "Conversion Option") which enables the holder to convert the outstanding amount of the Term B Loan 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. The Conversion Option is considered as an embedded derivative component of the Term B Loan which is separated from the host contract. The liability component of the Term B Loan is classified as non-current liability.

22 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Otsuka Loans (continued)

In accordance with the Company's accounting policy, at initial recognition, the derivatives relevant to the Term A Loan and Term B Loan are measured at fair value and presented as derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability components. The transaction costs that relate to the issue of the Term A Loan and Term B Loan are allocated to their respective liability components and derivatives in proportion to the allocation of proceeds. The portion relating to the derivatives is recognised immediately in profit or loss. The portion relating to the liability components is recognised initially as part of the respective loan liabilities. The fair value of the derivative components are subsequently remeasured at the end of each accounting period and the gain or loss on remeasurement to fair values is recognised immediately in profit or loss. The liability components are subsequently carried at amortised cost. The interest expenses recognised in profit or loss on the liability components are calculated using the effective interest method.

The Term C Loan is of a principal amount of US$100,000,000 and has a maturity date falling one year after drawdown. The Term C Loan is initially recognised at fair value less transaction costs. Subsequent to initial recognition, the borrowing is stated at amortised cost using the effective interest method.

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

	Liability component US$'000	Derivative component US$'000	Total US$'000
Upon the issuance of the Otsuka Loans			
Proceeds received for the issuance of the Otsuka Loans	194,307	5,693	200,000
Transaction costs on the issuance of the Otsuka Loans	(825)	–	(825)
Changes in fair value recognised in profit or loss during the year (note 4)	–	(5,101)	(5,101)
Interest charged during the year (note 5(a))	5,333	–	5,333
Interest paid during the year	(1,352)	–	(1,352)
As at 31 December 2014	197,463	592	198,055

Prior to 31 December 2014, the Company had been notified by Otsuka Medical Devices that the Purchase Option would not be exercised.

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 accrued interests to Otsuka Medical Devices when they were due for repayment.

22 INTEREST-BEARING BORROWINGS (CONTINUED)

(c) Loan from SMFA

On 9 September 2003, MP Shanghai entered into a 15 year long-term loan agreement with SMFA (the "SMFA loan"). The SMFA loan bears a variable interest rate which is determined based on the annual deposit rate as quoted by The People's Bank of China on each 29 September plus 0.3 percent. Interest is paid annually.

The loan is guaranteed by China Construction Bank, and is payable in 11 instalments of RMB590,000 on each 30 September commencing from 2008, with a four-year concession period. The last instalment is due on 31 August 2018.

The SMFA loan is secured by (i) the Group's buildings held for own use with net book value of US$3,750,000 at 31 December 2014 (2013: US$4,096,000) (see note 11(c)); and (ii) the Group's deposits with banks of US$106,000 at 31 December 2014 (2013: US$107,000) (see note 19).

The SMFA loan was initially recorded at fair value with reference to the borrowing rates available for bank loans with similar terms and maturities. The SMFA loan is being accreted to face value over the period of the loan using the effective interest method according to the accounting policy as set out in note 1(o). The difference between the fair value and the face value is regarded as government grant received by the Group, which is initially recognised as deferred income and subsequently recognised in profit or loss over the SMFA loan period, using the effective interest method.

23 OTHER NON-CURRENT LIABILITIES

Pursuant to the contractual agreements (the "Agreements") relating to the acquisition of Dongguan Kewei, the Group granted 4,000,000 share options (see note 28(b)(i)) to a seller of Dongguan Kewei (the "Seller"). The options vest on the fourth anniversary of the options grant date as defined in the Agreements (the "Grant Date").

Under the Agreements, the Seller is obligated to exercise the share options in its entirety with a total exercise payment of RMB10,595,000 (the "Exercise Payment") and to sell all the shares obtained from the exercise of these share options within 22 trading days commencing from the fourth anniversary of the Grant Date through an agent jointly designated by the Group and the Seller (the "Mandatory Share Sale"). If the proceeds from the Mandatory Share Sale less the Exercise Payment (the "Option Realisable Value") be lower than RMB48,915,600 (the "Specified Amount"), the Group should make an additional payment to the Seller in cash, being the difference between the Option Realisable Value and the Specified Amount and such payment will be no higher than the Specified Amount. If the Option Realisable Value exceed the Specified Amount, the Seller should pay such excess amounts to the Group in cash.

Upon the completion of this acquisition, a non-current liability of US$6,393,000, being the present value of the Specified Amount on that date using a discount rate of 5.04%, has been recognised. During the year ended 31 December 2014, an interest of US$352,000 has been accreted to the non-current liability with a corresponding amount included in the consolidated statement of profit or loss (2013: US$327,000).

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Provision for the year	**5,840**	10,280	10,432
Provisional tax paid	**(5,357)**	(7,419)	(9,003)
Exchange adjustments	**(54)**	–	–
	249	2,861	1,429
Tax recoverable by the subsidiary outside of the PRC	**(8)**	(13)	(2)
	241	2,848	1,427
Balance of profits tax provision relating to prior years	**460**	–	7
	701	2,848	1,434
Represented by:			
Income tax recoverable (note 18)	**(315)**	–	–
Income tax payable	**1,016**	2,848	1,434
	701	2,848	1,434

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax (assets)/liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accrued expense US$'000	Withholding tax on retained profits of a PRC subsidiary US$'000	Fair value adjustments in respect of net assets acquired in business combinations US$'000	Others US$'000	Total US$'000
Deferred tax arising from:					
At 1 January 2013	(1,754)	2,047	2,555	(783)	2,065
Exchange adjustments	(80)	76	89	(28)	57
(Credited)/charged profit or loss	(641)	–	(350)	89	(902)
At 31 December 2013	(2,475)	2,123	2,294	(722)	1,220
At 1 January 2014	**(2,475)**	**2,123**	**2,294**	**(722)**	**1,220**
Additions through acquisition (note 30)	**(1,044)**	**–**	**–**	**(1,191)**	**(2,235)**
Exchange adjustments	**27**	**(21)**	**(27)**	**10**	**(11)**
(Credited)/charged profit or loss	**582**	**–**	**(960)**	**838**	**460**
At 31 December 2014	**(2,910)**	**2,102**	**1,307**	**(1,065)**	**(566)**

Reconciliation to the consolidated statement of financial position:

	The Group		
	2014 US$'000	2013 US$'000	1 January 2013 US$'000
Net deferred tax assets recognised in the statement of financial position	**(4,124)**	(3,197)	(2,537)
Net deferred tax liabilities recognised in the statement of financial position	**3,558**	4,417	4,602
	(566)	1,220	2,065

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t), the Group did not recognise deferred tax assets in respect of tax losses attributable to certain subsidiaries of US$92,588,000 at 31 December 2014 (2013: US$21,043,000), and unused tax credits of US$627,000 (2013: nil) as the directors consider that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

The tax losses of US$63,575,000 incurred by OrthoRecon Business may be carried forward for 20 years under current tax legislation. The tax losses incurred by PRC subsidiaries of US$4,130,000, US$5,708,000, US$4,872,000, US$4,830,000 and US$9,473,000 will expire on 31 December 2015, 2016, 2017, 2018 and 2019 respectively.

(d) Deferred tax liabilities not recognised

As at 31 December 2014, no deferred tax liability was recognised in respect of the temporary differences relating to the undistributed profits of PRC subsidiaries amounting to US$221,759,000 (2013: US$195,090,000), as the Group controls the dividend policy of these subsidiaries and has determined that such profits will not be distributed in the foreseeable future.

25 DEFERRED INCOME

The movements of deferred income are as follows:

The Group

	Government subsidies for research and development projects (Note) US$'000	Government grant through low-interest loans US$'000	Total US$'000
At 1 January 2013	11,301	56	11,357
Additions	6,621	–	6,621
Government grant recognised as other revenue	(1,502)	(16)	(1,518)
Exchange adjustments	533	3	536
At 31 December 2013	16,953	43	16,996
At 1 January 2014	**16,953**	**43**	**16,996**
Additions	**13,024**	**–**	**13,024**
Government grant recognised as other revenue	**(885)**	**(20)**	**(905)**
Exchange adjustments	**(116)**	**–**	**(116)**
At 31 December 2014	**28,976**	**23**	**28,999**

25 DEFERRED INCOME (CONTINUED)

	2014 US$'000	2013 US$'000	1 January 2013 US$'000
Represented by:			
Current portion	**10**	14	41
Non-current portion	**28,989**	16,982	11,316
	28,999	16,996	11,357

Note: Since the time of completion for every project varies with actual circumstances, it is not practicable to determine the current portion of the deferred income derived from these projects reliably. Thus, the entire balance is treated as non-current deferred income.

26 CONVERTIBLE BONDS

In May 2014, the Company issued convertible bonds in the aggregate principal amount of US$100,000,000 to GIC Special Investments Pte Ltd., which is wholly owned by Government of Singapore Investment Corp ("GIC"), with a maturity date of 11 May 2019 (the "GIC Convertible Bonds"). The GIC Convertible Bonds bear interest at LIBOR plus 1% on the outstanding balances.

Pursuant to the terms of the GIC Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into fully paid ordinary shares of the Company at an initial conversion price of HK$6.84 per share, subject to adjustments under certain terms and conditions of the GIC Convertible Bonds.

Based on the terms of the GIC Convertible Bonds, the GIC Convertible Bonds are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the GIC Convertible Bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the GIC Convertible Bonds are converted or redeemed.

26 CONVERTIBLE BONDS (CONTINUED)

The movement of the liability component and the equity component of the GIC Convertible Bonds is set out below:

	Liability component US$'000	**Equity component** US$'000	**Total** US$'000
Upon the issuance of the GIC Convertible Bonds	89,426	10,574	100,000
Interest charged during the year (note 5(a))	2,998	–	2,998
Interest paid during the year	(851)	–	(851)
As at 31 December 2014	91,573	10,574	102,147

The GIC Convertible Bonds are subject to the fulfillment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenant, the GIC Convertible Bonds would become payable on demand. The Group regularly monitors its compliance with the covenants. As at 31 December 2014, none of the covenants relating to the GIC Convertible Bonds had been breached.

No conversion of the GIC Convertible Bonds had been occurred up to 31 December 2014.

27 OBLIGATIONS UNDER FINANCE LEASES

At the end of the reporting period, the Group had obligations under finance leases repayable as follows:

The Group

	2014	
	Present value of the minimum lease payments US$'000	**Total minimum lease payments US$'000**
Within one year	**1,868**	**1,873**
After one year but within two years	**1,894**	**1,922**
	3,762	**3,795**
Less: Total future interest expenses		**(33)**
Present value of lease obligations		**3,762**

(Expressed in United States dollars unless otherwise indicated)

28 SHARE-BASED PAYMENT TRANSACTIONS

On 3 September 2010, the Company approved a 10-for-1 share split (the "Share Split") of the Company's ordinary shares conditional on the completion of IPO. The 10-for-1 split also applies to the Company's share option plans. Accordingly, the number of share options and exercise price information presented below in respect of the share option plans have been adjusted retrospectively to reflect the 10-for-1 share split effect as if the Share Split had occurred at the beginning of the years presented.

(a) The 2004 share option plan (equity-settled)

On 20 February 2004, MicroPort Medical (Cayman) Corporation ("MP Cayman"), the intermediate holding company of MP Shanghai prior to the reorganisation completed on 31 December 2006 (the "Reorganisation"), adopted in a stock option plan (the "2004 Option Plan") pursuant to which MP Cayman may grant up to 102,610,300 share options to the employees, executives and external consultants of MP Shanghai.

During 2004 and 2005, MP Cayman granted a total of 102,610,300 share options to the executives, employees and external consultants at the exercise prices ranging from nil to HK$0.11057 and US$0.038 (equivalent to RMB0.314). An aggregate of 88,692,450 share options were vested and exercised during 2006. The grantees became the shareholders of MP Cayman and later became the shareholders of the Company upon the completion of the Reorganisation when the ordinary shares of MP Cayman were exchanged for the Company's ordinary shares on a one-for-one basis.

On 10 January 2007 (the "modification date"), the Company agreed to assume the obligation of all outstanding and unvested share options of MP Cayman under the 2004 Option Plan. Each of the 13,917,850 outstanding share options of MP Cayman was converted into one share option of the Company with same terms and conditions. The assumption of share options was considered as a modification to the 2004 Option Plan (the "2004 Modified Plan"). As the terms of these share options remained unchanged, the modification did not result in any incremental value in respect of the fair value of the share options.

(i) The terms and conditions of the grants of the 2004 Modified Plan are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to certain executives, external consultants and employees	10,097,600	Vested immediately on grant date	10 years
Options granted to two executives (Note)	3,820,250	Vested one to two years from the modification date	8 years and 9 months
Total share options granted	13,917,850		

Note: These share options were either exercised or forfeited during 2007 and 2008.

(Expressed in United States dollars unless otherwise indicated)

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The 2004 share option plan (equity-settled) (continued)

(ii) The number and weighted average exercise price of the share options under the 2004 Modified Plan are as follows:

	2014 Weighted average exercise price US$	**2014** Number of options	2013 Weighted average exercise price US$	2013 Number of options
Outstanding at the beginning of the year	**0.01**	**5,111,890**	0.01	7,151,970
Exercised during the year	**0.01**	**(1,814,080)**	0.01	(2,040,080)
Forfeited during the year	**0.02**	**(3,297,810)**	–	–
Outstanding at the end of the year		**–**	0.01	5,111,890
Exercisable at the end of the year		**–**	0.01	5,111,890

(b) The 2006 and 2010 share option plans (equity-settled)

On 26 August 2006, the Company adopted a share incentive plan (the "2006 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the executives, employees and external consultants of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

On 3 September 2010, the Company adopted a share option plan (the "2010 Option Plan"), pursuant to which the board of directors may authorise, at their discretion, the issuance of share options to the directors, employees or business associates of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(b) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values of the grants are as follows:

	Number of options	Fair value	Weighted average fair value per share option	Weighted average exercise price
		US$'000	US$	US$
Options granted to executives and directors on:				
2 March 2007	36,353,620	5,342	0.15	0.19
2 April 2007	1,450,000	153	0.11	0.28
14 June 2007 (note 28(b)(iii))	500,000	31	0.06	0.31
25 July 2008 (note 28(b)(iii))	3,700,000	333	0.09	0.31
1 December 2008 (note 28(b)(iii))	4,200,000	587	0.14	0.31
21 October 2009	6,000,000	1,207	0.20	0.31
9 July 2010	28,648,730	7,838	0.27	0.31
9 August 2010	5,000,000	1,608	0.32	0.31
7 September 2012	500,000	73	0.15	0.43
22 October 2012	500,000	84	0.17	0.54
2 January 2013	500,000	86	0.17	0.55
28 August 2013	250,000	55	0.22	0.64
9 December 2013	400,000	91	0.23	0.72
21 January 2014	650,000	184	0.28	0.69
28 August 2014	500,000	118	0.24	0.61
	89,152,350	17,790		

The above share options are vested in instalments over an explicit vesting period of four to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is 10 years.

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(b) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values of the grants are as follows: (continued)

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to employees on:				
23 April 2007	7,500,000	791	0.11	0.28
6 February 2009	250,000	34	0.14	0.43
8 July 2010	1,230,940	363	0.30	0.31
17 October 2011	500,000	136	0.27	0.62
1 November 2011	750,000	185	0.25	0.58
28 August 2012	10,000,000	1,354	0.14	0.43
10 December 2012	13,300,000	2,354	0.18	0.59
	33,530,940	5,217		

The above share options were granted to 591 employees and are vested in instalments over an explicit vesting period of four to seven years. The vesting schedule of each employee is different and is determined based on the date of employment. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options ranges from 6 to 10 years.

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to consultants on:				
17 May 2007 (note 28(b)(iii))	1,500,000	97	0.06	0.31
14 June 2007 (note 28(b)(iii))	500,000	33	0.07	0.31
	2,000,000	130		

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(b) The 2006 and 2010 share option plans (equity-settled) (continued)

(i) The terms, conditions and fair values of the grants are as follows: (continued)

The above share options are vested in instalments over an explicit vesting period of four to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of options is 10 years. The options granted on 14 June 2007 are exercisable upon an IPO of the Company's shares which was completed in September 2010.

	Number of options	**Fair value** US$'000	**Weighted average fair value per share option** US$	**Weighted average exercise price** US$
Options granted under a business combination:				
25 June 2012	4,000,000	411	0.10	0.42
Total options granted	128,683,290	23,548		

The Group granted 4,000,000 shares options to the former shareholder of an acquired business on 25 June 2012. The options are vested on the fourth anniversary of the date of acquisition. The contractual life of options granted is 4.08 years.

(ii) The number and weighted average exercise prices of share options are as follows:

	2014		2013	
	Weighted average exercise price **US$**	**Number of options**	Weighted average exercise price US$	Number of options
Outstanding at the beginning of the year	**0.39**	**71,483,950**	0.38	75,426,710
Granted during the year	**0.65**	**1,150,000**	0.63	1,150,000
Exercised during the year	**0.31**	**(11,351,400)**	0.31	(3,439,470)
Forfeited during the year	**0.50**	**(2,506,400)**	0.50	(1,653,290)
Outstanding at the end of the year (note)	**0.40**	**58,776,150**	0.39	71,483,950
Exercisable at the end of the year (note)	**0.30**	**31,561,150**	0.30	34,175,763

Note: The weighted average exercise prices for options outstanding and exercisable at 31 December 2014 have been adjusted to reflect the change of exercise price approved on 9 March 2010 (note 28(b)(iii)).

(Expressed in United States dollars unless otherwise indicated)

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(b) The 2006 and 2010 share option plans (equity-settled) (continued)

(ii) The number and weighted average exercise prices of share options are as follows: (continued)

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from July 2016 through August 2024. As at 31 December 2014, the weighted average remaining contractual life for the share options granted under the 2006 and 2010 share option plans was 5.79 years (2013: 6.70 years).

(iii) Modification of the 2006 Option Plan – change of exercise price

On 9 March 2010, the Board approved a modification to the 2006 Option Plan, to reduce the exercise price from US$0.425 to US$0.3062 for the share options granted on 17 May 2007, 14 June 2007, 25 July 2008 and 1 December 2008. The reduction of exercise prices of the above share options resulted in an incremental fair value of US$316,000 at the modification date. The incremental fair value is being recognised as equity-settled share-based payment expenses over the remaining vesting period.

(iv) Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	**2014**	2013
Fair value at measurement dates	**HK$1.78 to HK$2.26**	HK$1.24 to HK$1.87
Share price	**HK$4.52 to HK$5.21**	HK$4.22 to HK$5.40
Exercise price	**HK$4.72 to HK$5.35**	HK$4.23 to HK$5.59
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**41.68% to 43.67%**	42.97% to 45.41%
Option life	**10 years**	10 years
Suboptimal exercise factor	**2.0**	1.5
Expected dividend yield	**0%**	1.35%
Average risk-free interest rate	**1.88% to 2.27%**	0.64% to 2.37%
Forfeiture rate	**4.56%**	5.79%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as the Group.

Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

In respect of share options granted during 2013 and 2014, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) Share award scheme (equity-settled)

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. For the year ended 31 December 2014, the Company granted 3,247,585 shares (2013: 2,876,631) to the Group's executives and purchased 4,711,000 shares (2013: 3,331,000) at cash consideration of US$3,252,000 (2013: US$2,788,000).

The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

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

During 2014, the Group has adopted an employee trust benefit scheme, pursuant to which the Group has transferred 15% equity interest of MicroPort Endovascular (Shanghai) Co., Ltd. ("MP Endo") to a partnership firm ("Partnership A"), whose general partner is Maxwell Maxcare Science Foundation Limited, and whose limited partners consisted of employees of the Group and a partnership firm ("Partnership B"). Partnership B's general partner and limited partners are all employees of the Group.

All employees participate in the above scheme have purchased equity interests in either Partnership A or Partnership B at amounts specified in the partnership agreements (the "subscription amount") during 2014. If their employments with the Group are terminated within 3 years from the equity interest purchase dates, the respective employee should transfer their equity interest in the respective partnership firm to a person or a party nominated by the then general partner of that firm at a price no higher than the subscription amount.

Based on the above, management consider the vesting period of the above ESPP arrangement is three years. The grant-date fair values of the ESPP granted during 2014 amounted to US$302,000 and were determined using present value techniques and based on a valuation report issued by an external valuer.

28 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(e) Equity-settled share-based payment expenses (net of the impact of reversals resulting from the forfeiture of unvested options) recognised in the consolidated statement of profit or loss during the current and prior years:

	2014 **US$'000**	2013 US$'000
Research and development costs	**552**	875
Distribution costs	**383**	628
Administrative expenses	**204**	310
	1,139	1,813

Except for the 4,000,000 shares granted in respect of a business combination under the 2010 Option Plan, the other share options granted under the 2004 Modified Plan, the 2006 Option Plan, the 2010 Option Plan and the share award scheme were all granted to executives, employees and external consultants of the Group. Accordingly, the compensation expense was reflected as equity-settled share-based payment expenses with a corresponding increase in the capital reserve of the Company.

(f) Long term incentive awards (cash-settled)

During 2014, the Company granted a number of long term incentive awards ("LTI awards") to certain overseas employees of the Group, pursuant to which the eligible employees will be entitled to receive payments in cash at the time that such awards vest. The LTI awards will vest 25% on each of the first four anniversaries of the grant date. The settlement shall be made in cash as promptly as practicable but in no event after the thirtieth day following the applicable vesting date. The settlement amount will be determined based on the share price of the Company's ordinary shares at the dates specified in the LTI awards agreement and the unit of awards that shall have vested on such dates.

As at 31 December 2014, the total carrying amount of the liabilities arising from the LTI awards was US$1,285,000 and the total intrinsic value of the liabilities for which the respective employees' right to cash had vested is zero as none of the fore-mentioned granted LTI awards had vested by the end of 31 December 2014.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Capital reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2013		14	230,690	1	6,170	12,111	248,986
Changes in equity for 2013:							
Profit for the year		–	–	–	–	(17,471)	(17,471)
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income		–	–	–	–	(17,471)	(17,471)
Dividends approved in respect of the previous year	*29(b)(ii)*	–	–	–	–	(14,615)	(14,615)
Equity-settled share-based transactions	*28(d)*	–	–	–	1,813	–	1,813
Shares issued under the share option plans	*29(c)(iii)*	–	2,007	–	(927)	–	1,080
Purchase of own shares		–	–	–	–	–	–
– par value paid		–	–	–	–	–	–
– premium paid		–	–	–	–	(2,125)	(2,125)
– transfer between reserves		–	–	–	–	–	–
Shares purchased under share award scheme	*28(c)*	–	–	–	(2,788)	–	(2,788)
Shares granted under share award scheme	*28(c)*	–	–	–	2,001	–	2,001
Balance at 31 December 2013		14	232,697	1	6,269	(22,100)	216,881

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below (continued):

	Note	Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Capital reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2014		14	232,697	1	6,269	(22,100)	216,881
Changes in equity for 2014:							
Loss for the year		–	–	–	–	(5,732)	(5,732)
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income		–	–	–	–	(5,732)	(5,732)
Equity-settled share-based transactions	*28(d)*	–	–	–	1,104	–	1,104
Shares issued under the share option plans	*29(c)(iii)*	–	6,736	–	(3,172)	–	3,564
Equity component of convertible bonds	*26*	–	–	–	10,574	–	10,574
Shares purchased under share award scheme	*28(c)*	–	–	–	(3,252)	–	(3,252)
Shares granted under share award scheme	*28(c)*	–	–	–	2,197	–	2,197
Balance at 31 December 2014		14	239,433	1	13,720	(27,832)	225,336

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

No dividend was proposed during 2014 and 2013.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2014 US$'000	2013 US$'000
Dividends in respect of the previous financial year, approved during the year, of Nil (2013: HK$8 cent (equivalent to US$1 cent))	–	14,615

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Ordinary shares

	2014 No. of shares '000	2014 Amounts US$'000	2013 No. of shares '000	2013 Amounts US$'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	**1,408,995**	**14**	1,406,730	14
Shares issued under share option plans (note 29(c)(iii))	**13,165**	**–**	5,480	–
Repurchase of shares (note 29(c)(ii))	**–**	**–**	(3,215)	–
At 31 December	**1,422,160**	**14**	1,408,995	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 repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited 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 2014 (see note 28(c))	4,711,000	0.70	0.68	3,252

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iii) Shares issued under the share option plans

Shares issued under the share option plans during the year are summarised as follows:

	No. of share options exercised	Consideration US$'000	Credited to/(transferred from) Share capital US$'000	Share premium US$'000	Capital reserve US$'000
Options exercised in:					
January 2013	1,374,760	35	–	65	(31)
February 2013	285,090	13	–	22	(9)
March 2013	1,100,340	274	–	542	(268)
April 2013	666,980	211	–	331	(120)
May 2013	213,920	31	–	45	(14)
June 2013	5,090	2	–	2	(1)
July 2013	1,443,850	422	–	864	(441)
August 2013	201,100	66	–	92	(26)
September 2013	11,580	3	–	5	(1)
October 2013	51,290	15	–	25	(10)
November 2013	20,720	6	–	10	(4)
December 2013	104,830	2	–	4	(2)
For the year ended 31 December 2013	5,479,550	1,080	–	2,007	(927)
January 2014	**847,560**	**254**	**–**	**469**	**(215)**
February 2014	**3,727,620**	**628**	**–**	**1,061**	**(433)**
March 2014	**456,490**	**194**	**–**	**285**	**(91)**
April 2014	**46,240**	**13**	**–**	**19**	**(6)**
May 2014	**10,000**	**3**	**–**	**4**	**(1)**
June 2014	**6,960**	**2**	**–**	**3**	**(1)**
July 2014	**7,714,850**	**2,381**	**–**	**4,696**	**(2,315)**
August 2014	**100,660**	**29**	**–**	**42**	**(13)**
September 2014	**11,430**	**4**	**–**	**5**	**(1)**
November 2014	**243,670**	**75**	**–**	**152**	**(77)**
For the year ended 31 December 2014	**13,165,480**	**3,583**	**–**	**6,736**	**(3,153)**

(Expressed in United States dollars unless otherwise indicated)

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iv) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price US$	2014 Number of options	2013 Number of options
24 September 2011 to 19 February 2014	0.01 to 0.03	–	5,111,890
15 February 2007 to 24 January 2017	0.19	**2,505,610**	2,605,610
23 September 2008 to 22 September 2017	0.31	**500,000**	500,000
25 July 2009 to 24 July 2018	0.31	**1,500,000**	1,500,000
23 June 2009 to 31 December 2018	0.31	**200,000**	1,700,000
9 October 2010 to 20 October 2019	0.31	**5,668,000**	5,988,000
9 July 2011 to 8 July 2020	0.31	**12,600,730**	21,475,730
9 August 2011 to 8 August 2020	0.31	**3,840,000**	4,040,000
23 April 2007 to 22 April 2017	0.28	**1,326,810**	1,698,110
6 February 2010 to 5 February 2019	0.43	**100,000**	150,000
8 July 2011 to 7 July 2020	0.31	**926,500**	926,500
16 May 2008 to 16 May 2017	0.31	**1,000,000**	1,000,000
24 September 2011 to 23 September 2020	0.31	**500,000**	500,000
17 October 2012 to 16 October 2021	0.62	**500,000**	500,000
1 November 2012 to 31 October 2021	0.58	**562,500**	750,000
28 August 2019 to 27 August 2022	0.43	**9,400,000**	10,000,000
6 September 2013 to 6 September 2022	0.43	**500,000**	500,000
25 June 2016 to 26 July 2016	0.42	**4,000,000**	4,000,000
22 October 2013 to 21 October 2022	0.54	**446,000**	500,000
10 December 2019 to 9 December 2022	0.59	**10,400,000**	12,000,000
2 January 2014 to 1 January 2023	0.55	**500,000**	500,000
28 August 2014 to 27 August 2023	0.64	**250,000**	250,000
9 December 2014 to 8 December 2023	0.72	**400,000**	400,000
20 January 2015 to 20 January 2024	0.69	**650,000**	–
28 August 2015 to 27 August 2024	0.61	**500,000**	–
		58,776,150	76,595,840

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iii) Capital reserve

The capital reserve primarily comprises the following:

– the fair value of the actual or estimated number of unexercised share options granted to executives, employees and external consultants of the Group in accordance with the accounting policy adopted for share-based payments in note 1(s)(ii).

– the consideration paid for the purchase of the Company's shares net of the fair value of shares granted to the Group's executives under the share award scheme (see note 28(c)).

– the amount allocated to the unexercised equity component of convertible bonds (see note 1(n)(i)).

(iv) Statutory general reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained profits to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

(e) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was US$211,601,000 (2013: US$210,597,000).

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines "capital" as including all components of equity, obligations under finance leases, convertible bonds and non-current interest-bearing borrowings (including the current portion), less unaccrued proposed dividends. On this basis, the amount of capital employed at 31 December 2014 was US$735,243,000 (2013: US$414,132,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings and convertible bonds based on the Group's financial ratios relating to capital requirements. The Group complied with the imposed loan covenants for the year ended 31 December 2014. Except for the above, neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

30 ACQUISITION OF SUBSIDIARIES

On 10 January 2014, the Group acquired a worldwide hip and knee orthopedic reconstruction business (the "OrthoRecon Business") from Wright Medical, a corporation incorporated in Delaware of the US, at a consideration of US$279,233,000. Acquisition-related costs amounted to US$15,200,000, of which US$294,000 and US$14,906,000 were recognised in other operating costs in the consolidated statement of profit or loss for the year ended 31 December 2014 and 2013, respectively.

The hip and knee implants that are manufactured and sold by the OrthoRecon Business complement the Group's orthopedic products portfolio before this acquisition, which primarily consisted of spine and trauma products. Acquisition of the OrthoRecon Business enables the Group to have a broader orthopedic product portfolio covering the four major categories of the orthopedic products including the hip, knee, spine and trauma and to sell the hip and knee products through the existing sales network of the Group. The acquisition will also facilitate the Group to expand into the global orthopedic business sector and achieve synergies by leveraging the Group's existing orthopedic products portfolio and sales network.

30 ACQUISITION OF SUBSIDIARIES (CONTINUED)

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

	Recognised values on acquisition US$'000
Property, plant and equipment	94,879
Intangible assets	21,223
Trade and other receivables	62,395
Inventories	76,651
Other non-current assets	9,829
Deferred tax assets	2,235
Trade and other payables	(37,117)
Income tax payable	(563)
Other non-current liabilities	(4,757)
Net identifiable assets	224,775
Goodwill	54,458
Fair value of considerations	279,233
Cash considerations paid in 2014	279,233
Net cash outflow arising from the acquisition in 2014	(279,233)

For the period from 10 January 2014 to 31 December 2014, the OrthoRecon Business contributed revenue of US$208,716,000 and loss of US$54,220,000 to the Group's results. Had the acquisition of the OrthoRecon Business occurred on 1 January 2014, management estimates that consolidated revenue would have been US$358,238,000 and consolidated loss for the year would have been US$60,213,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2014.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay 50% deposits upfront and the remaining trade receivables are mainly due within 30 to 360 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 11% (2013: 21%) and 22% (2013: 47%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure each subsidiary maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

(i) The Group

	2014 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	**More than 1year but less than 2 years US$'000**	**More than 2 years but less than 5 years US$'000**	**More than 5 years US$'000**	**Total US$'000**	**Carrying amount at 31 December US$'000**
Interest-bearing borrowings	**220,394**	**45,728**	**97,503**	**–**	**363,625**	**348,714**
Convertible bonds	**1,524**	**2,525**	**109,225**	**–**	**113,274**	**91,573**
Obligations under finance leases	**1,873**	**1,922**	**–**	**–**	**3,795**	**3,762**
Trade and other payables	**107,734**	**960**	**–**	**833**	**109,527**	**109,527**
Other non-current liabilities	**–**	**7,994**	**–**	**–**	**7,994**	**7,335**
	331,525	**59,129**	**206,728**	**833**	**598,215**	**560,911**

	2013 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	31,904	2,545	20,460	–	54,909	51,593
Trade and other payables	44,582	–	–	–	44,582	44,582
Other non-current liabilities	–	–	8,074	–	8,074	7,053
	76,486	2,545	28,534	–	107,565	103,228

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

(ii) The Company

	2014 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	168,979	42,959	81,776	–	293,714	282,463
Trade and other payables	57,699	–	–	–	57,699	57,699
Other non-current liabilities	–	7,994	–	–	7,994	7,335
Convertible bonds	1,524	2,525	109,225	–	113,274	91,573
	228,202	53,478	191,001	–	472,681	439,070

	2013 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	369	369	14,732	–	15,470	15,000
Trade and other payables	15,651	840	42,468	–	58,959	56,791
Other non-current liabilities	–	–	8,074	–	8,074	7,053
	16,020	1,209	65,274	–	82,503	78,844

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, deposits with banks and interest-bearing borrowings. Borrowings at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and deposits at the end of the reporting period:

	2014		2013		1 January 2013	
	Effective interest rate	**Amount US$'000**	Effective interest rate	Amount US$'000	Effective interest rate	Amount US$'000
Net fixed rate instruments:						
Deposits with banks	**0%-3.25%**	**34,909**	1.5%-3.25%	66,887	3.31%	107,549
Interest-bearing borrowings	**–**	**–**	6.00%	(11,388)	6.66%	(3,182)
Obligations under finance leases	**2.60%-8.08%**	**(3,762)**		–		–
		31,147		55,499		104,367
Net variable rate instruments:						
Cash at banks	**0.35%**	**207,195**	0.35%	148,631	0.35%	63,503
Deposits with banks	**0.02%-0.35%**	**45,617**	0.35%	707	0.35%	681
Interest-bearing borrowings	**1.78%-7.66%**	**(348,714)**	2.49%-6.69%	(40,205)	6.62%	(508)
Convertible bonds	**5.24%**	**(91,573)**		–		–
		(187,475)		109,133		63,676
Total net instruments		**(156,328)**		164,632		168,043
Net fixed rate instruments as a percentage of total net instruments		**(19.9%)**		33.7%		62.1%

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the year and retained profits by approximately US$1,567,000 and US$1,957,000, respectively (2013: increased/decreased the Group's profit for the year and retained profits by approximately US$737,819).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2013.

(d) Currency risk

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables, payables that are denominated in a foreign currency (mainly US$ and Euro); (ii) IPO proceeds received by the Company were in Hong Kong dollars and were mostly exchanged into RMB or US$. The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Company to currency risk.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US$ translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of entities into the Group's presentation currency are excluded.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Group

	Exposure to foreign currencies (expressed in US$)						
	2014			2013		1 January 2013	
	Euro	**US$**	**RMB**	US$	RMB	US$	RMB
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000	US$'000
Trade and other receivables	**3,486**	**3,534**	**–**	4,419	–	1,680	1,891
Cash and cash equivalents	**–**	**2,300**	**79**	3,955	465	1,062	34,795
Deposits with banks	**–**	**22,008**	**–**	20,127	–	24,500	52,502
Trade and other payables	**(1,025)**	**(39)**	**–**	(920)	–	(682)	(191)
Amounts due to group companies	**(16,851)**	**–**	**(45,681)**	–	(44,108)	–	(2,871)
Amounts due from related parties	**272**	**1,489**	**–**	1,239	–	949	–
Other non-current liabilities	**–**	**–**	**(7,335)**	–	(7,053)	–	(6,472)
Net exposure arising from recognised assets and liabilities	**(14,118)**	**29,292**	**(52,937)**	28,820	(50,696)	27,509	79,654

The Company

	Exposure to foreign currencies		
	2014	2013	1 January 2013
	RMB	RMB	RMB
	US$'000	US$'000	US$'000
Trade and other receivables	**–**	–	1,891
Cash and cash equivalents	**64**	449	34,790
Deposits with banks	**–**	–	52,502
Trade and other payables	**–**	–	(191)
Amounts due (to)/from group companies	**(45,681)**	(44,108)	7,964
Other non-current liabilities	**(7,335)**	(7,053)	(6,472)
Net exposure arising from recognised assets and liabilities	**(52,952)**	(50,712)	90,484

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2014		2013		1 January 2013	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits US$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits US$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits US$'000
US$ (against RMB)	**3%**	**4,119**	3%	4,452	3%	5,120
	(3)%	**(4,119)**	(3)%	(4,452)	(3)%	(5,120)
RMB (against US$)	**3%**	**(9,718)**	3%	(9,214)	3%	15,020
	(3)%	**9,718**	(3)%	9,214	(3)%	(15,020)
Euro (against US$)	**3%**	**(258)**	3%	–	3%	–
	(3)%	**258**	(3)%	–	(3)%	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax and equity measured in the respective functional currencies.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of entities into the Group's presentation currency. The analysis has been performed on the same basis for 2013.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged an external valuer to perform valuations for the financial instruments, including the conversion option embedded in the Otsuka Loans. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at each interim and annual reporting date, and is reviewed and approved by the Group's management.

		Fair value at 31 December 2014	Fair value measurements as at 31 December 2014 categorised into		
			Level 1	**Level 2**	**Level 3**
		US$'000	US$'000	US$'000	US$'000
Recurring fair value measurement					
Financial liabilities:					
Derivative financial liabilities:					
– Conversion Option of the Otsuka Loans	22(b)	592	–	–	592

The carrying amounts of the Group's financial statements carried at cost or amortised cost are at amounts not materially different from their fair values as at 31 December 2014 and 2013.

During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Volatility ratio
Conversion Option of the Otsuka Loans	Binomial lattice model	Expected volatility	37.76%

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's profit by US$335,000 and US$268,000, respectively. The gain arising from the remeasurement of the Conversion Option of the Otuska Loan is presented in "other net income" in the consolidated statement profit or loss.

The movement during the year in the balance of the Level 3 fair value measurements is disclosed in note 22(b).

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	The Group	
	2014	2013
	US$'000	US$'000
Contracted for	**18,505**	21,645
Authorised but not contracted for	**57,941**	55,136
At 31 December	**76,446**	76,781

32 COMMITMENTS (CONTINUED)

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	US$'000	US$'000
Within 1 year	**5,719**	732
After 1 year but within 5 years	**8,834**	719
After 5 years	**45**	–
At 31 December	**14,598**	1,451

The Group leases a number of properties and plants under operating leases. The leases typically run for an initial period of one to seven years, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals as at 31 December 2014 and 2013.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid individuals as disclosed in note 8, is as follows:

	2014	2013
	US$'000	US$'000
Salaries and other benefits	**2,337**	1,434
Discretionary bonuses	**1,234**	1,095
Retirement scheme contributions	**60**	29
Equity-settled share-based payment expenses	**291**	818
Cash-settled share-based payment expenses	**247**	–
	4,169	3,376

Total remuneration was included in staff costs (note 5(b)).

(b) Financing arrangement

As mentioned in note 22(b), the Company drew down the Otsuka Loans of US$200,000,000 from Otsuka Medical Devices for purpose of financing its acquisition of the OrthoRecon Business. As at 31 December 2014, the outstanding balance due to Otsuka Medical Devices by the Group was US$197,463,000. Interest expenses and fair value change on the derivative component relating to the Otsuka Loans recognised in the consolidated statement of profit or loss during the year ended 31 December 2014 amounted to US$5,333,000 and US$5,101,000, respectively.

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sales to related parties

For the year ended 31 December 2014 and 2013, the Group entered into sales transactions with the following related parties:

Name of party	**Relationship**
JIMRO Co., Ltd. ("JIMRO")	Subsidiary of Otsuka Holdings Co., Ltd. (" Otsuka Holdings"), the ultimate controlling party of the Company
Thai Otsuka Pharmaceutical Co., Ltd. ("Thai Otsuka")	Subsidiary of Otsuka Holdings
Otsuka (Philippines) Pharmaceutical, Inc. ("Otsuka Philippines")	Subsidiary of Otsuka Holdings
P.T. Otsuka Indonesia ("Otsuka Indonesia")	Subsidiary of Otsuka Holdings
Otsuka Pakistan Ltd. ("Otsuka Pakistan")	Subsidiary of Otsuka Holdings
MicroPort Sorin CRM	Joint venture of the Group

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

	2014 **US$'000**	2013 US$'000
Sales of goods to:		
JIMRO	**385**	250
Thai Otsuka	**774**	801
Otsuka Philippines	**1,329**	986
Otsuka Indonesia	**753**	711
Otsuka Pakistan	**905**	633
MicroPort Sorin	**701**	–
	4,847	3,381
Sales of fixed assets to:		
MicroPort Sorin	**1,192**	–

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sales to related parties (continued)

	The Group		
	2014	2013	1 January 2013
	US$'000	US$'000	US$'000
Trade receivables from:			
JIMRO	**122**	113	119
Thai Otsuka	**203**	343	203
Otsuka Philippines	**167**	170	153
Otsuka Indonesia	**427**	425	299
Otsuka Pakistan	**400**	180	175
MicroPort Sorin	**188**	–	–
	1,507	1,231	949

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

(d) Management services fee

Pursuant to a management services agreement dated 1 January 2014, the Company has assigned We'Tron to provide management services regarding the Group's daily management and strategic development. During 2014 the management services fee reimbursed to We'Tron was US$194,000 (2013: nil).

(e) Transfer of the equity interest of MP Endo under the ESPP

As discussed in note 28(d), the Group has transferred 15% equity interest of MP Endo to Partnership A, whose general partner is Maxwell Maxcare Science Foundation Limited, and whose limited partners consisted of employees of the Group and Partnership B, at the consideration of US$4,805,000.

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors.

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2014, the directors consider the immediate parent and ultimate controlling party of the Group to be Otsuka Medical Devices Co., Ltd. and Otsuka Holdings Co., Ltd., which are both incorporated in Japan. Otsuka Holdings Co., Ltd. produces financial statements available for public use and Otsuka Medical Devices Co., Ltd. does not.

(Expressed in United States dollars unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, *Defined benefit plans: Employee contributions*	1 July 2014
Annual improvements to HKFRS 2010-2012 cycle	1 July 2014
Annual improvements to HKFRS 2011-2013 cycle	1 July 2014
Annual improvements to HKFRS 2012-2014 cycle	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to HKAS 27, *Equity method in separate financial statements*	1 January 2016
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, *Investment entities: Applying the consolidation exception*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

MicroPort Scientific Corporation