Annual Report 2015

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
Ms. Janine Junyuan Feng

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)*
Ms. Weiwei Chen
Dr. Guoen Liu

REGISTERED OFFICE

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

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

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

PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

KPMG, *Certified Public Accountants*

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

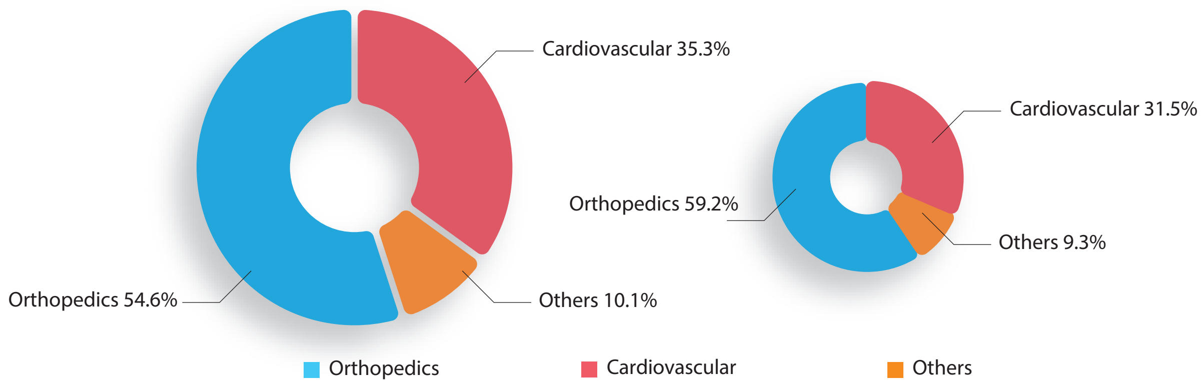
FINANCIAL SUMMARY

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

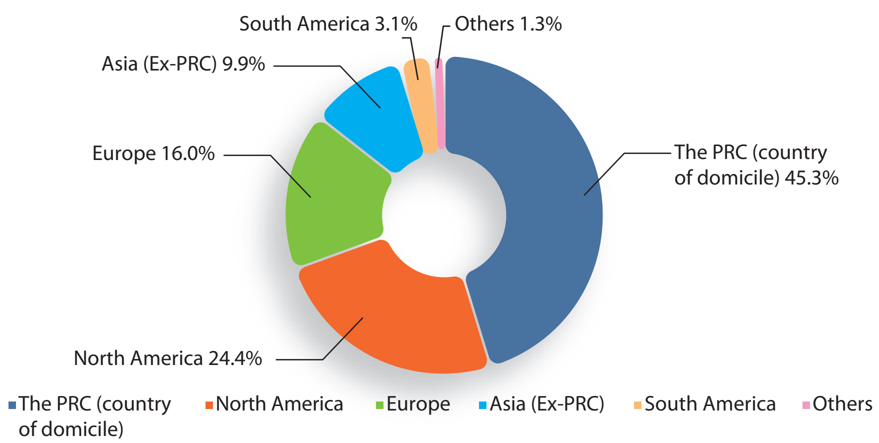
Revenue Analysis

Revenue by Business Segment
For the Year Ended 31 December 2015

Revenue by Business Segment
For the Year Ended 31 December 2014



Revenue by Geographical
For the Year Ended 31 December 2015



FIVE YEARS' FINANCIAL SUMMARY

	2015 US$'000	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000
Revenue	375,844	355,284	151,655	147,517	130,316
Net (loss)/profit	(11,379)	(59,571)	23,997	56,090	49,786
Assets					
Non-current assets	402,403	431,622	219,043	168,946	90,326
Current assets	331,240	508,112	299,803	255,504	281,716
Total assets	733,643	939,734	518,846	424,450	372,042
Liabilities					
Current Liabilities	164,601	328,032	77,997	32,546	24,430
Non-current Liabilities	251,214	267,959	50,416	22,820	11,921
Total Liabilities	415,815	595,991	128,413	55,366	36,351
Total Equity	317,828	343,743	390,433	369,084	335,691

OUR COMPANY

MicroPort Scientific Corporation ("Company" or "MicroPort") is 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 still affordable high-end medical devices. We develop and produce an ever diversifying portfolio of products, now being used at an average rate of one for every 18 seconds in over 5,000 major hospitals throughout China and around 30 other countries in the Asia Pacific region (excluding the PRC), South America, North America and Europe, cover a wide spectrum of disease types such as cardiovascular, orthopedics, neurovascular, endovascular, electrophysiological ("EP"), surgical management, diabetes care and endocrinal management. MicroPort is dedicated to becoming a leading China-based global enterprise capable of providing the best medical device products that are affordable and globally accessible to as many patients as possible.

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. 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 have a large and growing intellectual property portfolio and a strong research and development ("R&D") team. We work in close cooperation with recognized international physicians and scientists worldwide, to develop a range of products that meet the highest quality and clinical standards. The applied expertise of our R&D team ensures our latest products are always innovative, as we strive to provide state of the art medical technologies 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. With a large global footprint of R&D and manufacturing facilities (Shanghai, Jiangsu, Zhejiang, Beijing and Shenzhen in China, and Memphis, TN in the United States), a strong focus on technology innovation with over 1,600 issued patents, and a global workforce of nearly 3,000 employees, MicroPort is committed to its vision of being a patient oriented company capable of leading the future of minimally invasive healthcare and other emerging 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 patients. We know our products offer hope and relief to many people around the world, and every one of our employees takes personal responsibility to achieve our vision.

And it is our commercial achievements which 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 2015 was another year of success in MicroPort's journey. Despite the challenges of sluggish recovery of global and Chinese economy and more fierce world-wide competition of the medical devices industry, we were able to achieve solid results for our core businesses and to advance our product pipeline ensuring a promising future. Specifically, we maintained our leading position in domestic coronary interventional cardiology market, stabilized orthopedic operations in key market segments, achieved the realization of a fantastic product pipeline, exploited new global markets, and made great advancements in key research and development ("R&D") projects. During the year 2015, we continued to take solid steps on the path towards becoming a leading global medical devices company.

With our outstanding product portfolio, as well as hard work of our personnel in each business unit, the Company achieved a revenue growth of 5.8% in comparison with the previous year.

Our high-end product Firehawk® drug eluting stent ("DES") ("Firehawk") demonstrated excellent market performance in 2015, which greatly contributed to the 18.5% growth rate of our cardiovascular business unit. In addition, the commercial launch of Firehawk in new markets such as Europe is significant for the expansion of MicroPort's brand in the international markets.

2015 marks a transformational year for MicroPort Orthopedics post acquisition, as it has been fully integrated into the MicroPort family and accelerated its turnaround plans both through targeted and well-executed expense reduction initiatives in manufacturing and administration operations. In particular, we have also made remarkable results in introducing MicroPort Orthopedics products into China market. These products have gained high market recognition and helped drive the revenue and profit growth of our orthopedics business.

In 2015, our joint venture with the Sorin Group (Reuters Code: SORN. M1) launched China's first domestic cardiac pacemaker production line, which marks the end of an era when China solely relied on multi-national device manufacturers for cardiac pacemaker, and signifies the initial step for our Company in revolutionizing China's pacemaker industry from "Made-in-China" to "Innovated-in-China".

Great breakthroughs were also achieved in R&D, such as the Firesorb Bioresorbable Rapamycin Target Eluting Coronary Scaffold System ("Firesorb"), the Transcatheter Aortic Valve Implantation ("TAVI") devices, and the surgical robot project. In early 2016, our science and technology innovation platform won the second prize of the State Science and Technology Progress Award, which means our unique innovation mode obtains the recognition from National Supreme Science Award Association. This is an encouraging news to the Company. I believe the model will strongly improve MicroPort's continuous innovation capability, and will have a profound impact on the development of our country.

CHAIRMAN'S STATEMENT

In the coming year, our management team will focus on further diversifying our product pipeline, smoothing integration of resources, enhancing operational efficiency and delivering greater fiscal prudence. Looking forward, we are presented with amazing opportunities to deliver life-saving medical devices to more patients and build our MicroPort brand to be a synonymous with quality, innovation and above all integrity-worldwide. There is no doubt in my mind that there are many challenges ahead for us, but as a strong team of dedicated people, I believe MicroPort can achieve all the goals and strive to open a new era of growth and success.

During the Reporting Year, our directors, senior management officers and all our staff continued to adhere to their pragmatic, diligent and resolute working attitude, in pursuit of excellence in performance and quality of work. On behalf of all members of the Company, I would like to express my gratitude and appreciation to all our shareholders, vendors, distributors, physicians and surgeons, as well as business communities and partners for their dedicated support over the years.

Dr. Zhaohua Chang
Chairman

29 March, 2016

BUSINESS OVERVIEW

OVERVIEW

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

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

ORTHOPEDICS BUSINESS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

2015 was a transformational year for MicroPort Orthopedics during which it fully integrated into MicroPort, as it materially accelerated its turnaround plans both through targeted and well executed expense reduction initiatives in manufacturing and administration operations, while also significantly improved the revenue trend across all key international geographies. More specifically, our US core business grew at market rates for the year, which we consider to be a remarkable accomplishment as this business had been declining for the previous several years. The Japan negative revenue trend also started showing indications of improvement in the last quarter of 2015 thanks to several initiatives aimed at a stronger commercial alignment, and more robust training and medical education efforts. Our remaining international business provided a stable performance for the year, particularly in many of our Western European direct operations, despite of the challenge of a strong US dollar which limited the purchasing ability of many of our international distributor partners. In 2015 we introduced in key international markets our Preserve™ classic stem, our Prophecy™ Ligament Balancing instrumentation, and initiated the step-wise roll-out of our Evolution™ revision system. Our product launch plans for the coming year will add significant additional business opportunities across the world.

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

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

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

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

CARDIOVASCULAR DEVICES BUSINESS

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

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

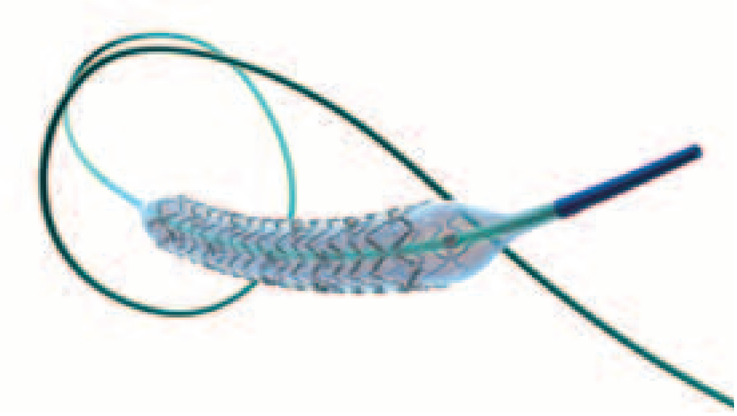
18.5%

The sales increased 18.5% Compared to the prior fiscal year.

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

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

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



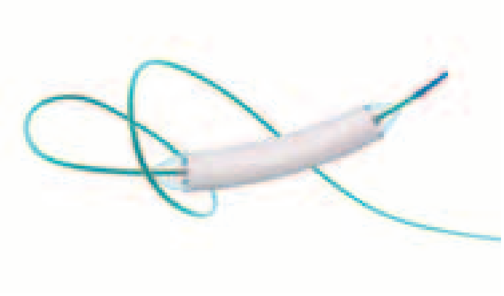
ENDOVASCULAR DEVICES BUSINESS

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

14.5%

The sales increased 14.5% compared to the prior fiscal year.

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



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

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

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

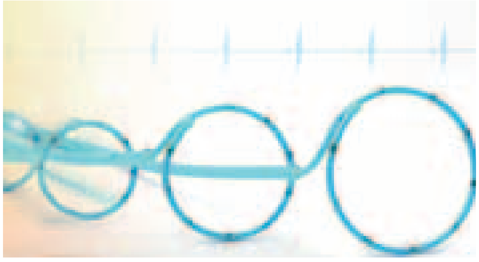
EP DEVICES

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

20.9%

The sales increased 20.9% compared to the prior fiscal year.

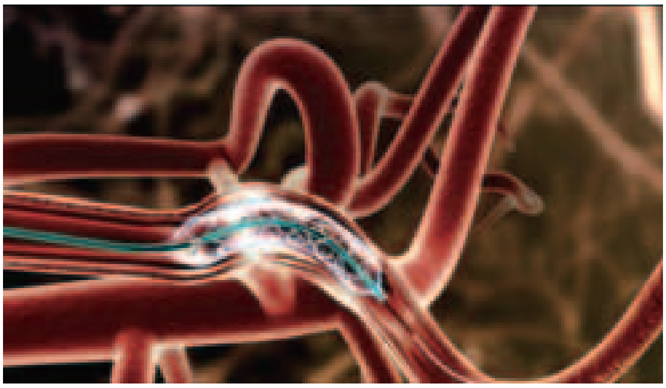
Remarkable accomplishment has been achieved by our EP devices segment in market exploitation and sales in the year of 2015. Both the number of hospitals covered and the number of distributors increased greatly. It achieved the 2015 annual sale targets with a growth of 20.9% compared with that of 2014.



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

24.9%

The sales increased 24.9% compared to the prior fiscal year.



NEUROVASCULAR DEVICES BUSINESS

The neurovascular business unit specializes in providing products and services for the treatment of neurovascular diseases including Cerebral Aneurysms, Intracranial Atherosclerotic Diseases (ICAD), Carotid Artery Diseases (CAD) and other neurovasculature related diseases. Product lines include APOLLO® Intracranial Stent System, WILLIS® Intracranial Stent Graft System, TUBRIDGE™ Vascular Reconstruction Device, and AETHER® Distal Protection Device, while five other major products are currently in development stage.

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

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

SURGICAL MANAGEMENT BUSINESS

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

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

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

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

5.2%

The sales increased 5.2% compared to the prior fiscal year.

DIABETES CARE AND ENDOCRINAL MANAGEMENT BUSINESS

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

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

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

4.4%

The sales increased 4.4% compared to the prior fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

RESEARCH AND DEVELOPMENT

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

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

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

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

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

MANUFACTURING

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

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

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

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

QUALITY ASSURANCE (“QA”)

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

COMPETITION

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

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

INTELLECTUAL PROPERTY

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

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

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

FINANCIAL REVIEW

OVERVIEW

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

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

REVENUE

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

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

– **ORTHOPEDICS DEVICES SEGMENT**

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

– **CARDIOVASCULAR DEVICES SEGMENT**

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

– **ENDOVASCULAR DEVICES SEGMENT**

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

– **EP DEVICES SEGMENT**

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

– **NEUROVASCULAR DEVICES SEGMENT**

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

– **SURGICAL MANAGEMENT SEGMENT**

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

– **DIABETES CARE AND ENDOCRINAL MANAGEMENT SEGMENT**

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

COST OF SALES

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

OTHER REVENUE AND NET INCOME

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

RESEARCH AND DEVELOPMENT COSTS

Our R&D costs increased by 10.6% from US$54.6 million for the year ended 31 December 2014 to US$60.4 million for the year ended 31 December 2015. The increase was primarily due to the increased investment in the on-going R&D projects and the newly kicked off R&D projects.

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER OPERATING COSTS

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

FINANCE COSTS

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

INCOME TAX

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

INTANGIBLE ASSETS AND GOODWILL

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, we had cash and cash equivalents of US$99.5 million, as compared to US$215.6 million as at 31 December 2014. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

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

NET CURRENT ASSETS

Our net current asset as at 31 December 2015 was US$166.6 million, as compared to US$180.1 million as at 31 December 2014.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from sales, purchases, borrowing and lending which give rises to receivables and payables that are denominated in a foreign currency (mainly Renminbi ("RMB"), Euro and Japanese yen). For the year ended 31 December 2015, the Group recorded a net foreign exchange gain of US$4.3 million, as compared to a net foreign exchange loss of US$1.5 million for the year ended 31 December 2014. The Group did not have any significant hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

CAPITAL EXPENDITURE

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

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

HUMAN RESOURCES ("HR")

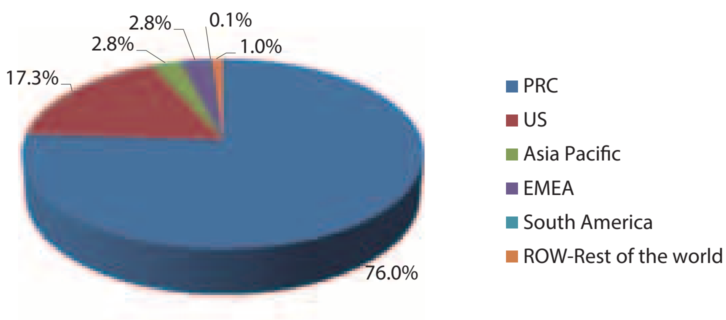
While reviewing the year of 2015 from HR lens, the themes of the Resources Optimization and HR Shared Service enhancement will pop-up as the main focus for the year. HR supported and drove the resources streamlining and the organization realignment across the corporation which included MicroPort Orthopedics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

TALENT ACQUISITION

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

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

WORKFORCE DISTRIBUTION BY REGIONS



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

We devoted over 20 percentage of the total human capital in the R&D areas which includes 380 Post Graduate scientists and technicians. And we attracted 51 returnees from overseas who share the same mission and are dedicated to our success in PRC. HR has principles to balance between the external acquisition and the promotion from within to ensure sufficient talent bench strength to fuel MicroPort's future growth.

TALENT DEVELOPMENT

HR utilized Assessment Center process to provide the foundations for more focused talent and leadership development within MicroPort. 29 newly promoted management team has been experienced the 360 Degree Annual Review as well as the Leadership Potential Assessment processes. Among the dual career tracks, the technical path had 96 technicians promoted within 2015. In addition to the leadership development, HR has accomplished the e-Performance Appraisal systems as well as the Competency Model development for the project management and sales marketing functions. 2015 certainly is a fruitful year for the people development.

INNOVATIVE HR SOLUTIONS

In 2015, we were able to engage 37 leaders served as the Internal Trainer to deliver the training curriculums. At the same time HR has established robust training and development curriculums to cover the various business needs with total of 64 sessions conducted with 13,000 hours of delivery (average 5 hours per person). In 2015, HR were able to put 88 e-learning curriculums into the systems to meet the professional/technical development needs which provided flexible learning options.

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

TALENT RETENTION

HR explores all the innovative ways to retain the key talents within our organization. Key talents were assessed, identified then follow-up with immediate retention scheme which includes Long Term Incentive Plan and Stock Option granting. Employee Care programs were deployed which includes the support of the Shanghai Residence Permit application, annual health screen, as well as on-site gym, sports events all demonstrate we are committed to provide an "Employee Care" environment.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

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

1. FURTHER STRENGTHEN OUR LEADING POSITION IN DOMESTIC MEDICAL DEVICES MARKET

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

2. DEEPEN OUR INTERNATIONALIZATION

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

3. DIVERSIFICATION OF EXISTING AND NEW PRODUCTS THROUGH INNOVATION

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

4. DEVELOPING AND IMPROVING OUR EXISTING PRODUCTS

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

5. PROMOTING REFORM OF MANAGEMENT SYSTEM

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

CORPORATE SOCIAL RESPONSIBILITY

At MicroPort, we are enthusiastic about improving the wellbeing of people and communities. Our Business Philosophy is grounded in concepts of contributing toward social harmony, and our dedication to improving lives through scientific medical innovation is equaled 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.

CHARITIES

In China, we have long been working 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 which work to improve the health and educational opportunities for disadvantage sections of our community.

On November 14, 2015, the Company donated a WILLIS® Intracranial Stent Graft System stent to a cerebrovascular disease patient, an ordinary farmer in Xinjiang to help him recovering, which brought a new life to him.

In September 2015, we organized charitable diagnosis and treatment of spine surgery and academic education activities in Northwest China area through which more than 130 patients accepted diagnosis and treatment, 7 charitable operations were conducted, and over 200 medical personnel attended training. The activities benefited about 10 nations including Han, Tibetan, Mongolian, Hui, Salar, not only practiced the Company's commitment of dedicating to the community, but also transmitted the MicroPort's medical techniques and corporate image to multiple medical units in Northwest China.

In Arlington of the US 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 CULTURE

MicroPort cares about the future of underprivileged children. The Company has established two MicroPort Hope Schools in Chishui of Guizhou Province and Wulian of Shandong Province to provide educational opportunities for children in improvised places. These two primary schools have been put into use in 2013 and 2010 respectively. In 2015, we continued to pay regular visits to the students to bring them emotional care and financial support.

Meanwhile, MicroPort has set up scholarships or 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 US, MicroPort offered scholarships to five universities last year, including Middle Tennessee State University, Mississippi State University, University of Memphis, University of Tennessee and University of Illinois.

CORPORATE SOCIAL RESPONSIBILITY

COMMUNITY SERVICE

In 2015, MicroPort organized several community campaigns including charity clinics and public welfare activities to promote public knowledge and awareness of heart attack and arrhythmia, as well as spine and trauma diseases, which were highly appraised by attendants of the activities. The community campaigns aim to raise awareness and educate the public about heart attack and arrhythmia, and spine and trauma diseases through various activities including expert consulting, community surveys and training for doctors. MicroPort is also inviting cardiologists and surgeons 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 US, MicroPort Orthopedics cares about supporting and improving our local communities as well. Between Thanksgiving and Christmas of 2015, we encouraged employees to participate in a 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.

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang (常兆華), born in 1963, is our founder, Executive Director ("Director"), Chairman and Chief Executive Officer ("CEO") of the Company. Dr. Chang has served as a Director since 14 July 2006 and assumed the responsibility of the CEO of the Company from April 2008 to July 2010, and reassumed the responsibility of the CEO of the Company from 20 September 2012. Dr. Chang is currently holding directorship in various subsidiaries of the Group. Dr. Chang has over 25 years of experience in the medical device industry, and he is currently a professor of the Medical Device College of the University of Shanghai for Science and Technology. Prior to founding Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械(集團)有限公司) ("MP Shanghai") in 1998, Dr. Chang was the vice president of research and development of Endocare Inc., a NASDAQ listed medical device company based in California, U.S., from 1996 to 1997. From 1990 to 1995, he was the senior engineer and senior scientist, director of research and development and vice president of engineering at Cryomedical Sciences Inc., a medical device company in Maryland, U.S., which was listed on NASDAQ prior to its acquisition by a third party. Dr. 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

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

Mr. Hiroshi Shirafuji (白藤泰司), born in 1944, is a Non-executive Director of the Company. Mr. Shirafuji has served as a Director since 1 November 2006 and Mr. Shirafuji is currently holding directorship in certain subsidiaries of the Group. Mr. Shirafuji is the President 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 and CEO, representative director of OMD in February 2011.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zezhao Hua (華澤釗), born in 1938, was appointed as the Independent Non-executive Director of the Company on 9 March 2010. Mr. Hua is a noted scholar in the biotechnology and medical device 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 device fields. Mr. Hua also holds 10 patents in China. Mr. Hua was a 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 was appointed Interim Chief Executive Officer of Kulicke & Soffa Industries, Inc., a NASDAQ listed company (NASDAQ: KLIC) (the "K&S") effective 5 October 2015. Mr. Chou has been K&S's Senior Vice President, Chief Financial Officer and Principal Accounting Officer since December 2010. Beginning October 2012, information technology was added to his overall responsibilities. With respect to his Principal Accounting Officer role, he resigned in June 2014 and resumed this role from October 2015 onward. Prior to 2006, Mr. Chou held a number of Fortune 500 finance executive positions including Asia Pacific Chief Financial Officer of Honeywell International, Asia Regional Chief Financial Officer of Tyco Fire & Security (ADT), a division of Tyco International and Lucent Technologies including Asia Pacific Chief Financial Officer. Mr. Chou received a Bachelor's Degree from University at Buffalo and a Master of Business Administration degree from Fuqua School of Business at Duke University.

Dr. Guoen Liu (劉國恩), born in 1957, was appointed as our 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 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

After the Completion of the Acquisition of Wright Medical's OrthoRecon Business, the Company consists of two geographically distinctive operational units which are Greater China and Inter-continental respectively managed by Greater China Executive Committee ("CEC") and Inter-Continental Executive Committee ("IEC"). Dr. Zhaohua Chang is the Founder, Chairman and CEO of the 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 CFO of the Company. Mr. Sun served as a Director of the Company from 22 July 2010 to 20 September 2012. He was also a Supervisor of MP Shanghai until July 2010. Mr. Sun is currently holding directorship in Shanghai MicroPort Orthopedics Co., Ltd. (上海微創骨科醫療科技有限公司), a subsidiary of the Group. Mr. Sun has over 18 years of finance experience. Mr. Sun was the Director and General Manager of Otsuka China from 2006 to July 2010. From 2004 to 2006, he served as a Financial Director of Otsuka China. From 1998 to 2003, Mr. Sun was an Assistant Manager of KPMG Shanghai Office. Mr. Sun is a member of the Chinese Institute of Certified Public Accountants and is also a Chartered Financial Analyst. Mr. Sun received his bachelor's degree in economics from Shanghai Jiao Tong University in China 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 of the Company from 22 July 2010 to 20 September 2012. Mr. Luo is currently holding directorship in Shanghai MicroPort EP MedTech Co., Ltd. (上海微創電生理醫療科技有限公司), a subsidiary of the Group. Mr. Luo has over 20 years of experience in the medical device industry. Prior to joining us in 2003, he worked as Principal Research and Development Engineer and Senior Manufacturing/Development Engineer at Medtronic AVE in the United States from 1995 to 2002. From 1991 to 1995, he worked as Supervisor and Engineer of the angioplasty research and development team at Vas-Cath Inc., a subsidiary of C.R. Bard, Inc., in Canada. Mr. Luo, jointly with others, holds 30 patents and has 52 patent applications pending in China, the United States, Japan and the European Union. Mr. Luo received his bachelor's degree in applied science from Yunnan University of Technology in China in 1983 and his master's degree in applied science from Queen's University in Canada in 1990.

Mr. Junder Chiang (江俊德), born in 1965, is Chief Human Resources Officer ("CHRO") of the Company 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 Senior HR Leader for General Motors (JV Liaison China) from 2005 to 2008. Mr. Chiang has also gained valuable experience working for Delphi in Singapore and USA between 1995 and 2004. Mr. Chiang earned a Bachelor's Degree from Taiwan-based Tamkang University, majoring in Business Economics, and achieved his Master's degree in Business Administration in Human Resources and Organization Development from University of Illinois Urbana-Champaign in the USA.

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

GREATER CHINA EXECUTIVE COMMITTEE

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

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

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

Mr. Yimin Xu (徐益民), born in 1967, Senior Vice President of Regulatory Affairs of MP Shanghai and member of CEC. Mr. Xu was Vice President of Quality and Regulatory of MP Shanghai until January 2011. He has over 16 years of experience in medical device industry. Prior to joining us in 2000, Mr. Xu served as project manager in Project Department of Shanghai Zhangjiang Hi-Tech Development Co., Ltd. from 1995 to 2000. Mr. Xu also served as quality engineer in Nanjing No.2 Air Compressor Factory from 1988 to 1992. Mr. Xu received his master degree in Mechanical and Electronic Engineering from Shanghai Jiaotong University in 1995.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

INTER-CONTINENTAL EXECUTIVE COMMITTEE

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

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

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

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

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

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 2015.

PRINCIPAL ACTIVITIES

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

FINANCIAL STATEMENTS

The financial performance of the Group for the financial year ended 31 December 2015 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 66 to 156 of this annual report.

BUSINESS REVIEW

OVERVIEW

In 2015, the Company kept steady development and achieved remarkable achievements under the complex domestic and overseas market situation and the continuing business upgrading after the acquisition of Wright Medical's OrthoRecon Business. While maintaining the leading position in domestic DES market, we made efforts in further integration of MicroPort Orthopedics into the Company. 2015 is the transformational year for MicroPort Orthopedics, as it materially accelerated its turnaround plans both through targeted and well executed expense reduction initiatives in manufacturing and administration operations, while also meaningfully improving the revenue trend across all key international geographies.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

In recent years, the Company has implemented paperless processing in its internal communications. Moreover, duplex printing and copying has become the norm within the Company, greatly reducing paper consumption and saving costs. Data on printing is regularly collected and assessed, to monitor the efficiency of the paperless environment.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

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

MARKET RISKS

The Company is also exposed to market risks brought by the government. As the National Health and Family Planning Commission of PRC imposed reductions in the retail prices of our products periodically in the past and is expected to continue to do so, ongoing decreases in the retails prices of our products or limitations on the profit margins we earn could materially and adversely affect our business, financial condition and results of operation. In addition, as our sales depend to a large extent on the level of insurance reimbursement patients receive for treatments using our products, and China has a complex medical insurance system that is currently undergoing reform, the governmental insurance coverage or reimbursement level in China for treatments using new medical devices such as vascular devices is subject to significant uncertainty and varies from region to region, the Company is exposed to the uncertainty of market share reduction due to above reason.

LEGAL RISKS

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

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

EMPLOYEES

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

CUSTOMERS

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

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

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

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

SHAREHOLDERS

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

FUTURE BUSINESS DEVELOPMENTS

In 2016, facing the increasingly fierce competition of global medical devices industry, we will continuously perform proactive strategies to maintain sustained development and enhance competitiveness through integrating resources, optimizing management structure, deepening internationalization, intensifying innovation, expanding market, and establishing wise information technology, and so on.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2015, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 5.5% and 20.2% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 5.1% and 14.3% respectively of the Group's total revenue for the year.

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28(c)(i) to the consolidated financial statements.

GROUP FINANCIAL SUMMARY

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

DIRECTORS

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
Ms. Janine Junyuan Feng (Appointed on 28 March 2016)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

In accordance with the Company's Articles of Association, Ms. Weiwei Chen, Ms. Janine Junyuan Feng, Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu, will retire from office as Directors at the forthcoming annual general meeting. All of them, except Mr. Zezhao Hua, will offer themselves for re-election. The Company is aware that after the retirement of Mr. Zezhao Hua at the forthcoming annual general meeting, the number of independent non-executive directors will become two. The Company will appoint a sufficient number of independent non-executive directors to meet the minimum number required under rule 3.10(1) as soon as possible after the retirement of Mr. Zezhao Hua.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 29 to 34 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 2015, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director/ Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of interest in the Company
Zhaohua Chang	16,000,000	1	Beneficial owner	Long position	1.12%
	25,800,000	2	Interest of controlled corporation	Long position	1.80%

Notes:

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

(2) Zhaohua Chang holds 30% interest in Erudite Investment Limited.

Save as disclosed above, as at 31 December 2015, 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 2015, 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	32.87
Otsuka Medical Devices Co., Ltd.	468,994,120	1	Beneficial owner	Long position	32.87
Shanghai Zhangjiang (Group) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.54
Shanghai Zhangjiang Science and Technology Investment Co.	221,748,050	2	Interest of controlled corporation	Long position	15.54
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.54
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.54
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.54
Shanghai ZJ Hi-Tech Investment Corporation	221,748,050	2	Interest of controlled corporation/ Beneficial Owner	Long position	15.54
Shanghai ZJ Holdings Ltd.	221,748,050	2	Interest of controlled corporation	Long position	15.54
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	2	Beneficial Owner	Long position	15.05
Maxwell Maxcare Science Foundation Limited	217,110,000	3	Interest of controlled corporation	Long position	15.21
We'Tron Capital Ltd.	217,110,000	3	Beneficial owner	Long position	15.21
Shanghai We'Tron Capital Corp.	217,110,000	3	Interest of controlled corporation	Long position	15.21
CAP IV L.L.C.	207,181,818	4	Interest of controlled corporation	Long Position	14.52
CAP IV General Partner, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.52
Carlyle Asia Partners IV, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.52
CAP IV Coinvestment, L.P.	207,181,818	4	Interest of controlled corporation	Long Position	14.52
Erudite Holdings Limited	207,181,818	4	Interest of controlled corporation	Long Position	14.52
GIC Private Limited	123,356,590	5, 6	Interest of controlled corporation/ Investment manager	Long position	8.64

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	total number of Shares in issue (%)
GIC Special Investments Pte Ltd.	113,669,590	5	Interest of controlled corporation	Long position	7.96
GIC (Ventures) Pte Ltd.	113,669,590	5	Interest of controlled corporation	Long position	7.96
Owap Investment Pte Ltd.	113,669,590	5	Persons having a security interest in shares	Long position	7.96
Gao Yang Investment Corp.	75,233,720	7	Interest of controlled corporation/ Beneficial owner	Long position	5.27
Shen Yao Fang	75,233,720	7	Interest of controlled corporation	Long position	5.27

Notes:

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

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

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	15.05
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.49
Total	221,748,050	15.54

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

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

(5) GIC Private Limited holds the 100% interest of GIC Special Investments Pte Ltd., which in turn holds the 100% interest of GIC (Ventures) Pte Ltd., which in turn holds 100% interest of Owap Investment Pte Ltd. Therefore, shares held by GIC 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..

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

(7) Shen Yao Fang holds the entire issued share capital of Gao Yang Investment Corp., which in turns holds 52,750,000 Shares. Gao Yang Investment Corp. is also interested in the entire issued share capital of Q1 Capital Corporation, which in turns holds 22,483,720 Shares. Shen Yao Fang and Gao Yang Investment Corp. are therefore deemed to be 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 2015, 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 in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

PERMITTED INDEMNITY PROVISION

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

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

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 2 January 2015, 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 2015 and new exclusive distribution agreements were entered into on 1 January 2016 to renew the Exclusive Distribution Agreements, details of which were disclosed in the announcement of the Company dated 4 January 2016.

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 for the 4,567,000 shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$2,441,000 on The Stock Exchange of Hong Kong Limited in April and May 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year, there was no material acquisition and disposal of subsidiaries and associated companies by the Company.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2015.

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 4,567,000 shares of the Company at cash consideration of US$2,441,000 on the Stock Exchange during the year ended 31 December 2015.

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 2015, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represent 11.8 % 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 24,479,890.

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 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 2015, 56,908,500 Shares were available for issue under the Share Option Scheme, which represented 3.99 % 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, 31,700,000 share options were granted and the status of the share options granted up to 31 December 2015 is as follows:

Category of participants	As at 1 January 2015	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2015	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share options
Directors										
Zhaohua Chang	2,500,000	–	–	–	2,500,000	July 9th, 2010	Jul. 9th, 2011-Jul. 8th, 2014	Jul. 9th, 2011-Jul. 8th, 2020	USD0.3062	NA
	–	13,500,000	–	–	13,500,000	January 20th, 2015	Jan. 20th, 2016-Jan. 19th, 2021	Jan. 20th, 2016-Jan. 19th, 2025	HKD3.210	HKD3.170
In aggregate	**2,500,000**	**13,500,000**	**-**	**-**	**16,000,000**					
Consultants										
	1,000,000	–	–	–	1,000,000	May 17th, 2007	May. 17th, 2007-May.16th 2011	May 17th, 2008-May 16th, 2017	USD0.3062	NA
	500,000	–	–	–	500,000	June 14th, 2007	Sep. 24th, 2010-Sep. 23rd, 2014	Sep. 24th, 2011-Sep. 23rd, 2020	USD0.3062	NA
In aggregate	**1,500,000**	**-**	**-**	**-**	**1,500,000**					
Employees										
	2,505,610	–	–	–	2,505,610	March 2nd, 2007	Mar. 2nd, 2007-Feb. 14th, 2011	Feb. 15th, 2008-Jan. 24th, 2017	USD0.275	NA
	1,326,810	–	140,600	79,160	1,107,050	April 23th, 2007	Apr. 23rd, 2007-Mar. 1st, 2013	Apr. 23rd, 2007-Apr. 22nd, 2017	USD0.275	NA
	500,000	–	–	–	500,000	June 14th, 2007	Sep. 23rd, 2007-Sep. 22nd, 2012	Sep. 23rd, 2008-Sep. 22nd, 2017	USD0.3062	NA

Category of participants	As at 1 January 2015	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2015	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
	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
	100,000	–	–	–	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
	1,200,000	–	–	1,200,000	–	October 21st, 2009	Oct. 15th, 2009-Oct. 14th, 2014	Oct. 15th, 2010-Oct. 20th, 2019	USD0.3062	NA
	468,000	–	50,000	–	418,000	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	–	66,000	–	160,500	July 8th, 2010	Jul. 8th, 2010-Jul. 7th, 2014	Jul. 8th, 2011-Jul. 7th, 2020	USD0.3062	NA
	10,100,730	–	2,702,000	500,000	6,898,730	July 9th, 2010	Jul. 9th, 2010-Jul. 8th, 2014	Jul. 9th, 2011-Jul. 8th, 2020	USD0.3062	NA
	250,000	–	250,000	–	–	August 9th, 2010	Aug. 9th, 2010-Aug. 8th, 2014	Apr. 28th, 2011-Aug. 8th, 2020	USD0.3062	NA
	3,590,000	–	–	–	3,590,000	August 9th, 2010	Aug. 9th, 2010-Aug. 8th, 2014	Sep. 1st, 2011-Aug. 8th, 2020	USD0.3062	NA
	500,000	–	–	–	500,000	October 17th, 2011	Oct. 17th, 2012-Dec. 17th, 2018	Oct. 17th, 2012-Oct. 16th, 2021	HKD4.790	HKD4.790
	562,500	–	–	–	562,500	November 1st, 2011	Nov. 17th, 2012-Nov. 1st, 2017	Nov. 1st, 2012-Oct. 31st, 2021	HKD4.470	HKD4.470
	9,400,000	–	–	600,000	8,800,000	August 28th, 2012	Aug. 28th, 2019	Aug. 28th, 2019-Aug. 27st, 2022	HKD3.350	HKD3.350
	500,000	–	–	–	500,000	September 7th, 2012	Sep. 6th, 2013-Sep. 6th, 2017	Sep. 6th, 2013-Sep. 6th, 2022	HKD3.330	HKD3.330
	446,000	–	–	–	446,000	October 22th, 2012	Oct. 22th, 2013-Oct. 22th, 2017	Oct. 22th, 2013-Oct. 12th, 2022	HKD4.210	HKD4.210
	10,400,000	–	–	1,100,000	9,300,000	December 10th, 2012	Dec 10th, 2019	Dec 10th, 2019-9th Dec, 2022	HKD4.600	HKD4.600

Category of participants	As at 1 January 2015	Granted during the period	Exercised during the period	Withdrawn during the period	As at 31 December 2015	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	January 2th, 2013	Jan. 2th, 2014-Jan. 2th, 2018	Jan. 2th, 2014-Jan. 1st, 2023	HKD4.230	HKD4.220
	250,000	–	–	–	250,000	August 28th, 2013	Aug. 28th, 2014-Aug. 28th, 2018	Aug. 28th, 2014-Aug. 27th, 2023	HKD4.970	HKD4.970
	400,000	–	–	–	400,000	December 9th, 2013	Dec. 9th, 2014-Dec. 9th, 2017	Dec. 9th, 2014-Dec. 8th, 2023	HKD5.590	HKD5.400
	650,000	–	–	–	650,000	January 21st, 2014	Jan. 21st, 2015-Jan. 20th, 2019	Jan. 20th, 2015-Jan. 20th, 2024	HKD5.352	HKD5.210
	500,000	–	–	–	500,000	August 28th, 2014	Aug. 28th, 2015-Aug. 28th, 2019	Aug. 28th, 2015-Aug. 27th, 2024	HKD4.718	HKD4.520
	–	2,600,000	–	–	2,600,000	January 20th, 2015	Jan. 20th, 2016-Jan. 19th, 2019	Jan. 20th, 2016-Jan. 19th, 2025	HKD3.210	HKD3.170
	–	7,060,000	–	1,200,000	5,860,000	January 20th, 2015	Jan. 20th, 2016-Jan. 19th, 2020	Jan. 20th, 2016-Jan. 19th, 2025	HKD3.210	HKD3.170
	–	6,240,000	–	–	6,240,000	January 20th, 2015	Jan. 20th, 2016-Jan. 19th, 2021	Jan. 20th, 2016-Jan. 19th, 2025	HKD3.210	HKD3.170
	–	300,000	–	–	300,000	June 30th, 2015	Jun. 30th, 2016-Jun. 29th, 2018	Jun. 30th, 2016-Jun. 29th, 2025	HKD3.910	HKD3.820
	–	2,000,000	–	–	2,000,000	December 7th, 2015	Dec. 7th, 2016-Dec. 6th, 2020	Dec. 7th, 2016-Dec. 6th, 2025	HKD3.020	HKD2.930
In aggregate	**50,776,150**	**18,200,000**	**4,408,600**	**4,679,160**	**59,888,390**					
Seller of Dongguan Kewei	4,000,000	–	–	–	4,000,000	Jun 25th, 2012	Jun. 25th, 2016	Jun. 25th, 2016-Jul. 26th, 2016	HKD3.240	HKD3.190
In aggregate	**4,000,000**	**–**	**–**	**–**	**4,000,000**					
Total	**58,776,150**	**31,700,000**	**4,408,600**	**4,679,160**	**81,388,390**					

ISSUANCE OF CONVERTIBLE BONDS

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

EQUITY-LINKED AGREEMENTS

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

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the financial year ended 31 December 2015 as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

ANNUAL GENERAL MEETING

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

FINAL DIVIDEND

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

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 24 June 2016 to Monday, 27 June 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Service Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 23 June 2016.

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 2015.

KPMG shall retire at the forthcoming annual general meeting 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 annual general meeting.

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

Shanghai, China
29 March 2016

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 2015.

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

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

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

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 2015, the Board comprises seven members, consisting of one executive director, three non-executive directors and three independent non-executive directors.

On 28 March 2016, Ms. Janine Junyuan Feng was appointed as a non-executive director of the Company.

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

The Board of the Company comprises the following Directors:

EXECUTIVE DIRECTOR:

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

NON-EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

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

Throughout the financial year ended 31 December 2015, 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 Broad Committees, namely the Audit Committee, the Remuneration Committee and Nomination Committee. The independent non-executive Directors are invited to serve on these three committees.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

During the year 2015, an in-house seminar was conducted covering the amendments of the Listing Rules, including disclosure of financial information, Corporate Governance Code and Corporate Governance Report, and the Environmental, Social and Governance Reporting Guide. 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 2015, five Board Meetings were held for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company; an annual general meeting was held for reviewing and approving financial statements, re-election of directors, re-appointment of auditors, etc..

The attendance records of each Director at the Board meetings and the AGM during the term of office as a Director during the year ended 31 December 2015 are set out below:

Name of Director	Attendance/Number of Board meetings held during the term of office of the Director concerned	Attendance/Number of AGM held during the term of office of the Director concerned
Executive Director		
Dr. Zhaohua Chang	5/5	1/1
Non-Executive Directors		
Mr. Norihiro Ashida	5/5	1/1
Mr. Hiroshi Shirafuji	5/5	1/1
Ms. Weiwei Chen	5/5	0/1
Independent Non-Executive Directors		
Mr. Zezhao Hua	0/5	0/1
Mr. Jonathan H. Chou	5/5	1/1
Dr. Guoen Liu	4/5	1/1

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

DELEGATION BY THE BOARD

BOARD COMMITTEES

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

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

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

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

AUDIT COMMITTEE

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

The Audit Committee comprises three members:

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

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

The main duties of the Audit Committee include the following:

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

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

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2015, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held 4 meetings during the year ended 31 December 2015. The attendance records of each member at the Audit Committee meetings during the year ended 31 December 2015 are set out below:

Name of members	**Attendance/Number of meetings held during the year 2015**
Mr. Jonathan H. Chou *(Chairman)*	4/4
Mr. Norihiro Ashida	4/4
Mr. Zezhao Hua	0/4

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

REMUNERATION COMMITTEE

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

The Remuneration Committee comprises three members:

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

Majority of the members are independent non-executive Directors.

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

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

The Remuneration Committee held 4 meetings during the year ended 31 December 2015. The attendance records of each member at the Remuneration Committee meetings during the year ended 31 December 2015 are set out below:

Name of members	Attendance/Number of meetings held during the year 2015
Dr. Guoen Liu *(Chairman)*	3/4
Mr. Jonathan H. Chou	4/4
Dr. Zhaohua Chang	4/4

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

NOMINATION COMMITTEE

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

The Nomination Committee comprises three members:

Mr. Zezhao Hua *(Chairman)*
Dr. Guoen Liu
Ms. Weiwei Chen

Majority of the members are independent non-executive directors.

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

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

During the financial year ended 31 December 2015, a meeting of Nomination Committee was held. Mr. Zezhao Hua did not attend the meeting in person due to health condition, while he appointed Dr. Zhaohua Chang as his proxy to chair and vote in the meeting.

The members reviewed the current composition of the Board and discussed the Board restructuring to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The members also considered suitable candidates to be independent non-executive Director and CEO of the Company respectively.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company. In accordance with the Company's Articles of Association, Ms. Weiwei Chen, Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu shall retire. Ms. Weiwei Chen. Mr. Jonathan H. Chou and Dr. Guoen Liu being eligible, offer themselves for re-election while Mr. Zezhao Hua will not offer himself for re-election at the forthcoming annual general meeting.

EXECUTIVE COMMITTEE

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

The CEC comprises five members: Mr. Bo Peng (Chairman of CEC), Mr. Hongbin Sun (Co-chairman of CEC), Mr. Qiyi Luo, Mr. Junder Chiang, and Mr. Yimin Xu, the majority are heads or vice presidents of operational departments.

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

Mr. Todd Smith, the SVP of finance of MPO, was appointed as the member of IEC with effect from 31 August 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.

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 2015.

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

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

AUDIT COMMITTEE

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

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

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

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

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

c) 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 Corporate Governance 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 65 in this annual report.

For the financial year ended 31 December 2015, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	Fees (US$'000)
KPMG	1,194

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 2015.

Non-audit Services

Auditors	Fees (US$'000)
KPMG	301

The non-audit service performed by KPMG primarily related to tax service.

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. The primary contact person at the Company is the Board Secretary and Manager of Security Affairs of the Company. They are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management. During 2015, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

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

SHAREHOLDER RIGHTS

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

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

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

Pursuant to Article 12.3 of the Articles of Association of the Company, an extraordinary general meeting shall be convened on the written requisition of (1) any two or more members of the Company; or (2) a recognized clearing house (or its nominees(s)) deposited at the principal place of business of the Company in Hong Kong (Level 54, Hopewell Centre, 183 Queen's Road East) 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.

CORPORATE GOVERNANCE REPORT

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 2015.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the changes that have occurred since the end of the 2015 to the date of approval of this report.

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

Shanghai, China, 29 March 2016

INDEPENDENT AUDITOR'S REPORT

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 66 to 156, which comprise the consolidated statement of financial position as at 31 December 2015, 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 financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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

29 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

The notes on pages 74 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

The notes on pages 74 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2015 US$'000	31 December 2014 US$'000
Non-current assets			
Property, plant and equipment	*10*	**253,792**	267,780
Land use rights	*10*	**17,411**	18,886
		271,203	286,666
Intangible assets	*11*	**60,217**	60,506
Prepayments for property, plant and equipment		**2,711**	1,678
Goodwill	*12*	**55,463**	56,529
Deferred tax assets	*23(b)*	**3,711**	4,124
Interest in a joint venture	*14*	**4,759**	3,866
Time deposits	*18*	**–**	11,440
Other non-current assets	*15*	**4,339**	6,813
		402,403	431,622
Current assets			
Inventories	*16*	**101,840**	109,901
Trade and other receivables	*17*	**126,957**	121,930
Pledged deposits and time deposits	*18*	**2,976**	60,679
Cash and cash equivalents	*19*	**99,467**	215,602
		331,240	508,112
Current liabilities			
Trade and other payables	*20*	**99,418**	108,649
Interest-bearing borrowings	*21*	**55,086**	215,897
Income tax payable	*23(a)*	**1,226**	1,016
Deferred income	*24*	**5**	10
Derivative financial liabilities	*21(b)*	**397**	592
Obligations under finance leases	*26*	**1,209**	1,868
Other current liabilities	*22*	**7,260**	–
		164,601	328,032
Net current assets		**166,639**	180,080
Total assets less current liabilities		**569,042**	611,702

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	**31 December 2015 US$'000**	31 December 2014 US$'000
Non-current liabilities			
Interest-bearing borrowings	*21*	**129,374**	132,817
Convertible bonds	*25*	**94,815**	91,573
Obligations under finance leases	*26*	**33**	1,894
Deferred income	*24*	**22,086**	28,989
Trade and other payables	*20*	**1,541**	1,793
Other non-current liabilities	*22*	**–**	7,335
Deferred tax liabilities	*23(b)*	**3,365**	3,558
		251,214	267,959
NET ASSETS		**317,828**	343,743
CAPITAL AND RESERVES			
Share capital	*28(c)*	**14**	14
Reserves		**312,505**	342,239
Total equity attributable to equity shareholders of the Company		**312,519**	342,253
Non-controlling interests		**5,309**	1,490
TOTAL EQUITY		**317,828**	343,743

Approved and authorised for issue by the board of directors on 29 March 2016.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 74 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Attributable to equity shareholders of the Company								
	Note	Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 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	*27(c)*	–	–	–	3,209	–	–	3,209	1,596	4,805
Equity-settled share-based transactions	*27(d)*	–	–	–	1,139	–	–	1,139	–	1,139
Equity component of convertible bonds	*25*	–	–	–	10,574	–	–	10,574	–	10,574
Appropriation of statutory general reserve		–	–	–	–	3,257	(3,257)	–	–	–
Shares issued under share option scheme	*28(c)(iii)*	–	6,736	–	(3,153)	–	–	3,583	–	3,583
Shares purchased under share award scheme	*27(b)*	–	–	–	(3,252)	–	–	(3,252)	–	(3,252)
Shares granted under share award scheme	*27(b)*	–	–	–	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 74 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Attributable to equity shareholders of the Company								
		Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2015		14	239,433	26,789	17,182	20,470	38,365	342,253	1,490	343,743
Changes in equity for 2015:										
(Loss)/profit for the year		–	–	–	–	–	(12,086)	(12,086)	707	(11,379)
Other comprehensive income		–	–	(25,834)	–	–	–	(25,834)	(113)	(25,947)
Total comprehensive income		–	–	(25,834)	–	–	(12,086)	(37,920)	594	(37,326)
Capital contribution from non-controlling interests	*27(c)*	–	–	–	4,622	–	–	4,622	3,548	8,170
Equity-settled share-based transactions	*27(d)*	–	–	–	2,448	–	–	2,448	–	2,448
Appropriation of statutory general reserve		–	–	–	–	645	(645)	–	–	–
Shares issued under share option scheme	*28(c)(iii)*	–	2,421	–	(1,068)	–	–	1,353	–	1,353
Shares purchased under share award scheme	*27(b)*	–	–	–	(2,441)	–	–	(2,441)	–	(2,441)
Shares granted under share award scheme	*27(b)*	–	–	–	2,204	–	–	2,204	–	2,204
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	(323)	(323)
Balance at 31 December 2015		14	241,854	955	22,947	21,115	25,634	312,519	5,309	317,828

The notes on pages 74 to 156 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

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

	Note	2015 US$'000	2014 US$'000
Operating activities			
Cash generated from operations	*19(b)*	**36,132**	26,242
Tax paid:			
– The People's Republic of China ("PRC") Corporate income tax paid		**(3,859)**	(7,718)
– Non-PRC Corporate income tax paid		**(1,553)**	(718)
Net cash generated from operating activities		**30,720**	17,806
Investing activities			
Payment for the purchase of property, plant and equipment		**(36,565)**	(53,391)
Proceeds from sale of property, plant and equipment		**1,538**	4,896
Payment for intangible assets		**(10,437)**	(8,659)
Placement of deposits with banks with original maturities over three months		**(482)**	(106,443)
Uplift of deposits with banks with original maturities over three months		**26,502**	117,877
Decrease/(increase) in pledged deposits		**43,123**	(27,410)
Interest received		**3,351**	3,436
Payments for acquisition of subsidiaries		**–**	(279,233)
Payments for capital contribution to a joint venture		**(5,064)**	(5,025)
Net cash generated from/(used in) investing activities		**21,966**	(353,952)

The notes on pages 74 to 156 form part of these financial statements.

	Note	2015 US$'000	2014 US$'000
Financing activities			
Proceeds from the Otsuka Loans, net of transaction costs		**–**	199,175
Repayments of the Otsuka Loans	*21(b)*	**(160,000)**	–
Proceeds from the convertible bonds		**–**	100,000
Proceeds from other interest-bearing borrowings, net of transaction costs		**123,107**	132,083
Advance received from disposal of partial interests in a subsidiary		**2,730**	–
Capital contributions from non-controlling interests		**8,170**	4,805
Repayments of other interest-bearing borrowings		**(128,786)**	(32,382)
Proceeds from shares issued under the share option plans	*28(c)(iii)*	**1,353**	3,583
Interest paid for the Otsuka Loans	*21(b)*	**(1,631)**	(1,352)
Interest paid for the convertible bonds	*25*	**(1,422)**	(851)
Interest paid for other interest-bearing borrowings		**(4,435)**	(3,594)
Payment for finance leases		**(1,597)**	(4,207)
Payment for repurchase of shares under share award scheme	*27(b)*	**(2,441)**	(3,252)
Net cash (used in)/generated from financing activities		**(164,952)**	394,008
Net (decrease)/increase in cash and cash equivalents		**(112,266)**	57,862
Cash and cash equivalents at 1 January		**215,602**	159,903
Effect of foreign exchange rate changes		**(3,869)**	(2,163)
Cash and cash equivalents at 31 December	*19(a)*	**99,467**	215,602

The notes on pages 74 to 156 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except 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 cost formula of inventories

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

(ii) Application of new and revised HKFRSs

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

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

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

(d) Subsidiaries and non-controlling interests

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

(f) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(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 value, if any, using the straight line method over their estimated useful lives as follows:

– Freehold land is not depreciated;

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

– Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 5 to 10 years from the date of completion, and

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

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

(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 are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(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 current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(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 first-in, first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

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

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

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

(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).

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

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

(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 11, 12, 27 and 29 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of inventories

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

(b) Depreciation and amortisation

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

(c) Income tax

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

(d) Impairment of assets

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

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue by major category of products is as follows:

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

For the year ended 31 December 2015, no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 29(a).

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

(b) Segment reporting

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

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

(i) Segment results, assets and liabilities

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

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

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

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

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

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

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

3 REVENUE 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 business US$'000	Total US$'000
Revenue from external customers	210,371	111,872	14,100	4,807	6,285	5,802	2,047	355,284
Reportable segment net profit/(loss)	(65,225)	25,052	2,957	(1,985)	1,456	(14,621)	(1,174)	(53,540)
Depreciation and amortisation for the year	28,630	7,834	360	176	342	712	170	38,224
Income tax	423	4,861	550	–	271	(48)	–	6,057
Write-down of inventories	591	559	–	–	–	–	1,218	2,368
Impairment losses of								
– Intangible assets	1,050	–	–	–	–	–	–	1,050
– Goodwill	6,451	5,125	–	–	–	11,719	–	23,295
Reportable segment assets	398,739	417,341	13,992	12,625	7,537	27,467	5,873	883,574
Additions to non-current segment assets during the year	201,305	54,649	474	2,081	1,672	954	42	261,177
Reportable segment liabilities	135,895	139,996	3,157	7,187	2,418	9,770	6,052	304,475

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2015 US$'000	2014 US$'000
Profit or loss		
Reportable segment net loss	**(4,051)**	(53,540)
Equity-settled share-based payment expenses (note 27(d))	**(2,448)**	(1,139)
Unallocated exchange gain	**3,444**	16
Unallocated income and expenses	**(8,324)**	(4,908)
Consolidated loss for the year	**(11,379)**	(59,571)
Assets		
Reportable segment assets	**851,639**	883,574
Elimination of inter-segment receivables	**(127,583)**	(93,846)
	724,056	789,728
Unallocated corporate assets:		
– Cash and cash equivalents	**8,801**	148,128
– Others	**786**	1,878
	9,587	150,006
Consolidated total assets	**733,643**	939,734
Liabilities		
Reportable segment liabilities	**302,926**	304,475
Elimination of inter-segment payables	**(127,583)**	(93,846)
Deferred tax liabilities (note 23(b))	**1,981**	2,102
Convertible bonds (note 25)	**94,815**	91,573
Derivative financial liabilities (note 21(b))	**397**	592
Interest-bearing borrowings	**134,196**	282,463
Unallocated corporate liabilities	**9,083**	8,632
Consolidated total liabilities	**415,815**	595,991

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographic information

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

Revenue from external customers

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

Specified non-current assets

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

4 OTHER REVENUE AND NET INCOME

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

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

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

	2015 US$'000	2014 US$'000
Other net income		
Net loss on disposal of property, plant and equipment	**(718)**	(1,493)
Net foreign exchange gain/(loss)	**4,254**	(1,504)
Changes in fair value of embedded financial derivatives (note 21(b))	**195**	5,101
Others	**(427)**	(159)
	3,304	1,945

5 LOSS BEFORE TAXATION

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

	2015 US$'000	2014 US$'000
(a) Finance costs		
Interest on the Otsuka Loans (note 21(b))	**2,438**	5,333
Interest on the convertible bonds (note 25)	**4,664**	2,998
Interest on other interest-bearing borrowings	**6,003**	4,425
Finance charges on obligations under finance leases	**64**	55
Others	**1,609**	690
Total interest expense on financial liabilities not at fair value through profit or loss	**14,778**	13,501
Less: interest expense capitalised into property, plant and equipment *	**–**	(545)
	14,778	12,956

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

5 LOSS BEFORE TAXATION (CONTINUED)

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

	2015 US$'000	2014 US$'000
(b) Staff costs		
Contributions to defined contribution retirement plan	**10,264**	9,052
Equity-settled share-based payment expenses (note 27)	**4,652**	3,336
Cash-settled share-based payment expenses (note 27)	**1,224**	1,245
Salaries, wages and other benefits	**122,951**	130,749
	139,091	144,382

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

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

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

5 LOSS BEFORE TAXATION (CONTINUED)

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

	2015 US$'000	2014 US$'000
(c) Other items		
Amortisation#		
– land use rights (note 10)	**402**	408
– intangible assets (note 11)	**5,130**	4,885
	5,532	5,293
Depreciation# (note 10)	**32,938**	32,988
Less: amount capitalised as development costs	**(867)**	(646)
	32,071	32,342
Impairment losses		
– trade and other receivables (note 17(b))	**635**	1,746
– intangible assets (note 11)	**282**	1,050
– goodwill (note 12)	**984**	23,295
	1,901	26,091
Operating lease charges: minimum lease payment	**7,839**	5,721
Auditors' remuneration		
– audit services	**1,194**	1,206
– non-audit services	**301**	2,072
	1,495	3,278
Research and development costs (other than amortisation costs of intangible assets)	**53,660**	53,055
Write-off of intangible assets (note 11)	**4,808**	–
Cost of inventories# (note 16(b))	**130,540**	122,027

Cost of inventories includes US$43,536,000 (2014: US$50,690,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

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

Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$27,771,000 (2014: US$27,862,000), depreciation of the relevant property, plant and equipment of US$3,816,000 (2014: US$2,319,000) and cost of inventories of US$6,305,000 (2014: US$8,556,000), which are included in the total staff cost as disclosed in note 5(b), depreciation as disclosed in note 5(c) and cost of inventories as disclosed in note 16(b), respectively.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2014: 16.5%) of the estimated assessable profits.

(iii) PRC CIT

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

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

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

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

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

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

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

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

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

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

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

7 DIRECTORS' EMOLUMENTS

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

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

7 DIRECTORS' EMOLUMENTS (CONTINUED)

	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 (note) 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

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option schemes" in report of the director and note 27.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2014: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2014: four) individual are as follows:

	2015 US$'000	2014 US$'000
Salaries and other benefits	1,451	1,146
Retirement scheme contributions	12	40
Discretionary bonuses	551	778
Equity-settled share-based payment	–	77
Cash-settled share-based payment	1,448	247
	3,462	2,288

The emoluments of the four (2014: four) individuals with the highest emoluments are within the following bands:

	2015 Number of individuals	2014 Number of individuals
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	–	1
HK$4,000,001 to HK$4,500,000	–	1
HK$4,500,001 to HK$5,000,000	2	–
HK$5,000,001 to HK$5,500,000	–	–
HK$5,500,001 to HK$6,000,000	1	–
HK$6,000,001 to HK$7,000,000	–	1
HK$7,000,001 to HK$11,000,000	1	–

9 LOSS PER SHARE

(a) Basic loss per share

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

(i) Weighted average number of ordinary shares

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

(b) Diluted loss per share

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

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

	2015	2014
	US$'000	US$'000
Loss attributable to equity shareholders	**(12,086)**	(59,461)
Effect of effective interest on the Term B Loan	**–**	2,488
Effect of changes in fair value recognised as gains for the derivative component of Term B Loan (note 21(b))	**–**	(5,101)
Loss attributable to equity shareholders (diluted)	**(12,086)**	(62,074)

9 LOSS PER SHARE (CONTINUED)

(b) Diluted loss per share (continued)

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

	2015 **'000**	2014 '000
Weighted average number of ordinary shares at 31 December	**1,415,068**	1,408,536
Effect of the potential conversion of the Term B Loan (note 21(b))	**–**	45,455
Weighted average number of ordinary shares (diluted) at 31 December	**1,415,068**	1,453,991

The calculation of diluted loss per share amount for the year ended 31 December 2015 has not included the potential effect of (1) the deemed issuance of shares under the Company's share option scheme during the year; and (2) the deemed conversion of the convertible bonds (note 25) and Term B Loan (note 21(b)) into ordinary shares during the year, as they all have an anti-dilutive effect on the basic loss per share amount for the year.

10 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

(a) Reconciliation of carrying amount

	Land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Land use rights US$'000	Total US$'000
Cost:									
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	20,180	181	45,237	18,033	–	11,248	94,879	–	94,879
Disposals	(135)	(354)	(5,099)	(2,584)	(222)	–	(8,394)	–	(8,394)
At 31 December 2014 and 1 January 2015	**141,024**	**14,927**	**114,783**	**37,462**	**2,839**	**20,441**	**331,476**	**20,378**	**351,854**
Exchange adjustments	**(7,287)**	**(940)**	**(3,859)**	**(964)**	**(179)**	**(1,139)**	**(14,368)**	**(1,176)**	**(15,544)**
Transfer	**9,662**	**1,350**	**8,177**	**3,313**	**382**	**(22,884)**	**–**	**–**	**–**
Additions	**–**	**205**	**5,444**	**321**	**170**	**26,631**	**32,771**	**–**	**32,771**
Disposals	**–**	**(141)**	**(3,831)**	**(414)**	**(136)**	**–**	**(4,522)**	**–**	**(4,522)**
At 31 December 2015	**143,399**	**15,401**	**120,714**	**39,718**	**3,076**	**23,049**	**345,357**	**19,202**	**364,559**
Accumulated depreciation, amortisation and impairment:									
At 1 January 2014	3,222	4,557	17,813	5,721	2,122	–	33,435	1,092	34,527
Exchange adjustments	(9)	(41)	(615)	(124)	(20)	–	(809)	(8)	(817)
Charge for the year	2,864	1,268	19,988	8,558	310	–	32,988	408	33,396
Written back on disposals	(11)	(215)	(867)	(648)	(177)	–	(1,918)	–	(1,918)
At 31 December 2014 and 1 January 2015	**6,066**	**5,569**	**36,319**	**13,507**	**2,235**	**–**	**63,696**	**1,492**	**65,188**
Exchange adjustments	**(416)**	**(373)**	**(1,382)**	**(511)**	**(138)**	**–**	**(2,820)**	**(103)**	**(2,923)**
Charge for the year	**3,970**	**1,307**	**18,582**	**8,781**	**298**	**–**	**32,938**	**402**	**33,340**
Written back on disposals	**–**	**(14)**	**(1,838)**	**(301)**	**(96)**	**–**	**(2,249)**	**–**	**(2,249)**
At 31 December 2015	**9,620**	**6,489**	**51,681**	**21,476**	**2,299**	**–**	**91,565**	**1,791**	**93,356**
Net book value:									
At 31 December 2015	**133,779**	**8,912**	**69,033**	**18,242**	**777**	**23,049**	**253,792**	**17,411**	**271,203**
At 31 December 2014	134,958	9,358	78,464	23,955	604	20,441	267,780	18,886	286,666

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

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

	2015 **US$'000**	2014 US$'000
In US		
– medium-term leases	**14,734**	15,169
– freehold	**4,839**	4,839
	19,573	20,008
In the PRC		
– medium-term leases	**131,617**	133,836
	151,190	153,844
Representing:		
Land and buildings held for own use, carried at cost	**133,779**	134,958
Land use rights	**17,411**	18,886
	151,190	153,844

(c) As at 31 December 2015, land use rights and buildings held for own use with net book value of US$5,064,000 and US$80,138,000, respectively (2014: US$4,862,000 and US$80,463,000, respectively) have been pledged as security for certain banking facilities and the long-term loan from Shanghai Municipal Financial Administration ("SMFA") (see note 21).

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

The Group leases certain machinery equipment under finance leases expiring from one to five years. At the end of the reporting period, the net book value of machinery equipment held under finance leases was US$1,464,000 (2014: US$4,800,000).

11 INTANGIBLE ASSETS

	Technologies US$'000	Products licences US$'000	Capitalised development costs US$'000	Customer contracts and related customer relationship US$'000	Trademark and others US$'000	Total US$'000
Cost						
At 1 January 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	14,000	–	–	7,223	–	21,223
Additions	–	–	10,803	–	487	11,290
At 31 December 2014 and 1 January 2015	15,328	9,290	35,456	9,968	536	70,578
Exchange adjustments	(76)	(536)	(2,307)	(158)	(3)	(3,080)
Additions	–	–	11,503	–	951	12,454
Write-off	–	–	(4,808)	–	–	(4,808)
At 31 December 2015	15,252	8,754	39,844	9,810	1,484	75,144
Accumulated amortisation and impairment:						
At 1 January 2014	1,342	2,203	–	592	50	4,187
Exchange adjustments	(14)	(25)	(3)	(7)	(1)	(50)
Amortisation charge for the year	1,365	686	1,509	1,303	22	4,885
Impairment charge for the year	–	–	–	1,050	–	1,050
At 31 December 2014 and 1 January 2015	2,693	2,864	1,506	2,938	71	10,072
Exchange adjustments	(76)	(201)	(161)	(116)	(3)	(557)
Amortisation charge for the year	1,399	672	1,886	1,134	39	5,130
Impairment charge for the year	–	282	–	–	–	282
At 31 December 2015	4,016	3,617	3,231	3,956	107	14,927
Net book value:						
At 31 December 2015	11,236	5,137	36,613	5,854	1,377	60,217
At 31 December 2014	12,635	6,426	33,950	7,030	465	60,506

Capitalised development costs primarily related to cardiovascular, endovascular, electrophysiology and neurovascular devices business segments. During the year ended 31 December 2015, two development projects with previous capitalised costs of US$4,808,000 were assessed by the Group as not probable to have positive outcome based on management's updated feasibility assessment taking into account the latest changes in the legal, economic and technological environment of the market. Accordingly, the Group wrote off capitalised development costs of US$4,808,000, which was recognised in research and development costs in the consolidated statement of profit or loss.

11 INTANGIBLE ASSETS (CONTINUED)

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

	2015 US$'000	2014 US$'000
Research and development costs	**1,886**	1,509
Distribution costs	**754**	983
Administrative expenses	**2,490**	2,393
	5,130	4,885

12 GOODWILL

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

12 GOODWILL (CONTINUED)

Impairment tests for cash-generating unit containing goodwill

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

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

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

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

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

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

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

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

			Proportion of ownership interest			
Name of company	**Place of incorporation and business**	**Issued/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**Principal activity**
Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai") (上海微創醫療器械(集團)有限公司)*(i)	The PRC	US$50,000,000	100%	85.6%	14.4%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences Shanghai") (上海微創生命科技有限公司)*(ii)	The PRC	Chinese Renminbi ("RMB") 58,000,000	100%	–	100%	Manufacturing, distribution, research and development of medical devices
MicroPort Lifesciences (Beijing) Co., Ltd. (微創(北京)生命醫學科技有限公司)*(ii)	The PRC	RMB3,000,000	100%	–	100%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort Orthopedics Co., Ltd. ("MP Orthopedics") (上海微創骨科醫療科技有限公司)*(ii)	The PRC	RMB195,000,000/ RMB515,000,000	100%	–	100%	Manufacturing, distribution, research and development of orthopaedics devices
MicroPort NeuroTech (Shanghai) Co., Ltd. ("MP Neuro") (微創神通醫療科技(上海)有限公司)*(ii)	The PRC	RMB52,764,937/ RMB53,500,000	84.2%	–	84.2%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort EP MedTech Co., Ltd. ("MP EP") (上海微創電生理醫療科技有限公司)*(ii)	The PRC	RMB67,500,000	85%	–	85%	Distribution, research and development of electrophysiology devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
Suzhou MicroPort Spine and Trauma Co., Ltd. ("Suzhou MicroPort", formally known as Suzhou Health Medical Appliance Co., Ltd.") (蘇州微創脊柱創傷醫療科技有限公司)*(ii)	The PRC	RMB30,827,703	100%	–	100%	Manufacturing distribution, research and development of orthopedics devices
MicroPort Orthopedics (Suzhou) Co., Ltd. (微創骨科醫療科技(蘇州)有限公司)*(iii)	The PRC	US$34,500,000/ US$320,000,000	100%	–	100%	Distribution, research and development of orthopedics devices
MicroPort Endovascular (Shanghai) Co., Ltd. ("MP Endo") (微創心脈醫療科技(上海)有限公司)*(iii)	The PRC	RMB52,941,200	85%	–	85%	Distribution, research and development of endovascular devices
Dongguan Kewei Medical Instrument Co., Ltd. ("Dongguan Kewei") (東莞科威醫療器械有限公司)*(ii)	The PRC	RMB45,000,000	100%	–	100%	Manufacturing, distribution, research and development of surgical devices
D-pulse Medical (Beijing) Co., Ltd. ("D-pulse") (龍脈醫療器械(北京)有限公司)*(iii)	The PRC	US$2,000,000	100%	–	100%	Manufacturing, distribution, research and development of cardiovascular devices
MicroPort Orthopedics Inc.	The US	US$1	100%	–	100%	Manufacturing, distribution, research and development of medical devices
MicroPort Scientific Srl	Italy	EUR10,000	100%	–	100%	Distribution, research and development of medical devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

* 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 interests for the years ended 31 December 2015 and 2014.

14 INTEREST IN A JOINT VENTURE

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

Name of joint venture	Form of business structure	Place of incorporation and business	Proportion of ownership interest: Goup's Effective interest	Held by the Company	Held by a subsidiary	Particulars of issued and paid up capital	Principal activity
MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MicroPort Sorin CRM") (創領心律管理醫療器械(上海)有限公司)*	Incorporated	The PRC	51%	–	51%	Registered capital RMB122,000,000	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 and Sorin CRM Holdings SAS ("Sorin") in 2014. MP Shanghai holds 51% interests in MicroPort Sorin CRM and Sorin holds the remaining 49% interests. Pursuant to the terms of the joint venture agreement and articles of association of MicroPort Sorin CRM, management of the Group determine that MicroPort Sorin CRM is a joint venture.

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

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:

	2015 US$'000	2014 US$'000
Gross amounts of MicroPort Sorin CRM		
Non-current assets	**3,752**	1,225
Current assets	**7,676**	8,334
Current liabilities	**(1,904)**	(1,979)
Non-current liabilities	**(192)**	–
Equity	**9,332**	7,580
Included in the above assets and liabilities:		
Cash and cash equivalents	**4,461**	4,229

14 INTEREST IN A JOINT VENTURE (CONTINUED)

	2015 US$'000	2014 US$'000
Gross amounts of MicroPort Sorin CRM		
Revenue	**2,136**	12
Loss for the year	**(7,427)**	(2,351)
Other comprehensive income	**(750)**	57
Total comprehensive income	**(8,177)**	(2,294)
Included in the above loss:		
Depreciation and amortisation	**314**	75
Interest income	**16**	7
Reconciled to the Group's interest in MicroPort Sorin CRM:		
Gross amount of MicroPort Sorin CRM's net assets	**9,332**	7,580
Group's effective interest	**51%**	51%
Group's share of MicroPort Sorin CRM's net assets and carrying amount in the consolidated financial statements	**4,759**	3,866

15 OTHER NON-CURRENT ASSETS

	2015 US$'000	2014 US$'000
Prepaid royalty	**3,315**	6,033
Deposits	**559**	560
Others	**465**	220
	4,339	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 4 to 6 years. The prepaid royalty expected to be amortised within one year is classified as "current" and included in trade and other receivables in note 17.

16 INVENTORIES

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

	2015 US$'000	2014 US$'000
Raw materials	**10,698**	13,614
Work in progress	**17,375**	19,986
Finished goods	**73,767**	76,301
	101,840	109,901

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

	2015 US$'000	2014 US$'000
Carrying amount of inventories sold	**123,003**	111,103
Increase of inventory provision	**332**	2,368
Cost of inventories sold	**123,335**	113,471
Cost of inventories directly recognised as research and development costs and distribution costs	**7,205**	8,556
	130,540	122,027

17 TRADE AND OTHER RECEIVABLES

	2015 US$'000	2014 US$'000
Trade debtors due from:		
– third party customers	**104,465**	100,263
– related parties (note 31(c))	**1,272**	1,507
	105,737	101,770
Less: Allowance for doubtful debts (note 17(b))	**(4,337)**	(3,896)
	101,400	97,874
Other debtors	**9,317**	11,018
Income tax recoverable (note 23(a))	**3,325**	315
Loans and receivables	**114,042**	109,207
Deposits and prepayments	**12,915**	12,723
	126,957	121,930

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

(a) Ageing analysis

As 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:

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

Trade receivables are due within 30 to 360 days from the date of billing. Further details of the Group's credit policy are set out in note 29(a).

17 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:

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

The Group's trade debtors of US$4,337,000 (2014: US$3,896,000) were individually determined to be impaired as at 31 December 2015. The individually impaired receivables related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered.

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

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

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

17 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.

18 PLEDGED DEPOSITS AND TIME DEPOSITS

	2015	2014
	US$'000	US$'000
Current		
Deposits with original maturities over three months	**482**	26,502
Pledged deposits	**2,494**	34,177
	2,976	60,679
Non-current		
Pledged deposits with maturities over one year	**–**	11,440

Included in pledged deposits at 31 December 2015, US$100,000 (2014: US$45,048,000 were pledged as security for SMFA loan and a banking facility) were pledged as security for SMFA loan.

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2015	2014
	US$'000	US$'000
Cash at bank and in hand	**99,467**	215,602

As at 31 December 2015, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to US$76,427,000 (2014: US$29,405,000). 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.

19 CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Note	**2015 US$'000**	2014 US$'000
Loss before taxation		**(8,542)**	(53,514)
Adjustments for:			
Amortisation of land use rights	*5(c)*	**402**	408
Amortisation of intangible assets	*5(c)*	**5,130**	4,885
Write-off of intangible assets	*11*	**4,808**	–
Depreciation	*5(c)*	**32,071**	32,342
Impairment loss on intangible assets	*5(c)*	**282**	1,050
Impairment loss on goodwill	*5(c)*	**984**	23,295
Finance costs	*5(a)*	**14,778**	12,211
Interest income	*4*	**(1,003)**	(4,536)
Changes in fair value of embedded financial derivatives	*4*	**(195)**	(5,101)
Net loss on disposal of property, plant and equipment	*4*	**718**	1,493
Share of losses of a joint venture		**3,788**	1,192
Equity-settled share-based payment and share award scheme expenses	*5(b)*	**4,652**	3,336
Changes in working capital:			
Decrease/(increase) in inventories		**5,769**	(13,324)
(Increase)/decrease in trade and other receivables		**(4,966)**	2,097
(Decrease)/increase in trade and other payables		**(17,096)**	8,289
(Decrease)/increase in deferred income		**(5,448)**	12,119
Cash generated from operations		**36,132**	26,242

20 TRADE AND OTHER PAYABLES

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

All of the above balances classified as current liabilities are expected to be settled within one year.

An ageing analysis of the trade payables based on invoice date is as follows:

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

21 INTEREST-BEARING BORROWINGS

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

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

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

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

21 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) Bank loans

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

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

(b) Otsuka Loans

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

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

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

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

21 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Otsuka Loans (continued)

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
As at 1 January 2015	197,463	592	198,055
Changes in fair value recognised in profit or loss during the year (note 4)	–	(195)	(195)
Repayment during the year	(160,000)	–	(160,000)
Interest charged during the year (note 5(a))	2,438	–	2,438
Interest paid during the year	(1,631)	–	(1,631)
As at 31 December 2015	38,270	397	38,667

22 OTHER LIABILITIES

Pursuant to the contractual agreements (the "Agreements") dated 25 June 2012 relating to the acquisition of Dongguan Kewei, the Group granted 4,000,000 share options (see note 27(a)(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 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 2015, an interest of US$363,000 has been accreted to other liability with a corresponding amount included in the consolidated statement of profit or loss (2014: US$352,000).

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2015 **US$'000**	2014 US$'000
Provision for the year	**2,853**	5,840
Provisional tax paid	**(5,974)**	(5,537)
Exchange adjustments	**54**	(54)
	(3,067)	249
Tax recoverable by the subsidiary outside of the PRC	**–**	(8)
	(3,067)	241
Balance of profits tax provision relating to prior years	**968**	460
	(2,099)	701
Represented by:		
Income tax recoverable (note 17)	**(3,325)**	(315)
Income tax payable	**1,226**	1,016
	(2,099)	701

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

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

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

Deferred tax arising from:	Accrued expense US$'000	Withholding tax on retained profits of a PRC subsidiary US$'000	Fair value adjustments in respect of net assets acquired in business combinations US$'000	Others US$'000	Total US$'000
At 1 January 2014	(2,475)	2,123	2,294	(722)	1,220
Additions through acquisition	(1,044)	–	–	(1,191)	(2,235)
Exchange adjustments	27	(21)	(27)	10	(11)
Charged/(credited) profit or loss	582	–	(960)	838	460
At 31 December 2014 and 1 January 2015	**(2,910)**	**2,102**	**1,307**	**(1,065)**	**(566)**
Exchange adjustments	**148**	**(121)**	**(71)**	**(6)**	**(50)**
(Credited)/charged profit or loss	**(346)**	**–**	**(124)**	**740**	**270**
At 31 December 2015	**(3,108)**	**1,981**	**1,112**	**(331)**	**(346)**

Reconciliation to the consolidated statement of financial position:

	2015 US$'000	2014 US$'000
Net deferred tax assets recognised in the statement of financial position	**(3,711)**	(4,124)
Net deferred tax liabilities recognised in the statement of financial position	**3,365**	3,558
	(346)	(566)

23 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 has not recognised deferred tax assets in respect of cumulative tax losses attributable to certain subsidiaries of US$112,193,000 at 31 December 2015 (2014: US$92,588,000), as the directors consider that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

The tax losses of US$90,769,000 incurred by OrthoRecon Business may be carried forward for 20 years under current tax legislation. The tax losses incurred by PRC subsidiaries of US$5,379,000, US$4,013,000, US$2,927,000, US$3,287,000 and US$5,818,000 will expire in 2016, 2017, 2018, 2019 and 2020 respectively.

(d) Deferred tax liabilities not recognised

At 31 December 2015, temporary differences relating to the undistributed profits of PRC subsidiaries amounted to US$207,783,000 (2014: US$221,759,000). Deferred tax liabilities of US$20,778,300 (2014: US$22,175,900) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 DEFERRED INCOME

The movements of deferred income are as follows:

	Government subsidies for research and development projects (Note) US$'000	**Government grant through low-interest loans** US$'000	**Total** US$'000
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 and 1 January 2015	**28,976**	**23**	**28,999**
Additions	**3,212**	**–**	**3,212**
Government grant recognised as other revenue	**(8,649)**	**(11)**	**(8,660)**
Exchange adjustments	**(1,460)**	**–**	**(1,460)**
At 31 December 2015	**22,079**	**12**	**22,091**

24 DEFERRED INCOME (CONTINUED)

	2015 US$'000	2014 US$'000
Represented by:		
Current portion	**5**	10
Non-current portion	**22,086**	28,989
	22,091	28,999

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.

25 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.

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
As at 1 January 2015	91,573	10,574	102,147
Interest charged during the year (note 5(a))	4,664	–	4,664
Interest paid during the year	(1,422)	–	(1,422)
As at 31 December 2015	94,815	10,574	105,389

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 2015, 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 2015.

26 OBLIGATIONS UNDER FINANCE LEASES

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

	2015		2014	
	Present value of the minimum lease payments US$'000	**Total minimum lease payments US$'000**	Present value of the minimum lease payments US$'000	Total minimum lease payments US$'000
Within one year	**1,209**	**1,214**	1,868	1,873
After one year but within two years	**14**	**15**	1,894	1,922
After two year but within five years	**19**	**19**	–	–
	1,242	**1,248**	3,762	3,795
Less: Total future interest expenses		**(6)**		(33)
Present value of lease obligations		**1,242**		3,762

27 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 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.

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) 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 27(a)(iii))	500,000	31	0.06	0.31
25 July 2008 (note 27(a)(iii))	3,700,000	333	0.09	0.31
1 December 2008 (note 27(a)(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
20 January 2015	29,400,000	4,459	0.15	0.41
30 June 2015	300,000	53	0.18	0.51
7 December 2015	2,000,000	306	0.15	0.39
	120,852,350	22,608		

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) 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 six years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is 10 years.

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

The above share options 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	Weighted average fair value per share option	Weighted average exercise price
		US$'000	US$	US$
Options granted to consultants on:				
17 May 2007 (note 27(a)(iii))	1,500,000	97	0.06	0.31
14 June 2007 (note 27(a)(iii))	500,000	33	0.07	0.31
	2,000,000	130		

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) 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	Weighted average fair value per share option	Weighted average exercise price
		US$'000	US$	US$
Options granted under a business combination:				
25 June 2012	4,000,000	411	0.10	0.42
Total options granted	160,383,290	28,366		

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:

	2015		2014	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	US$		US$	
Outstanding at the beginning of the year	**0.40**	**58,776,150**	0.39	71,483,950
Granted during the year	**0.41**	**31,700,000**	0.65	1,150,000
Exercised during the year	**0.31**	**(4,408,600)**	0.31	(11,351,400)
Forfeited during the year	**0.31**	**(4,679,160)**	0.50	(2,506,400)
Outstanding at the end of the year (note)	**0.41**	**81,388,390**	0.40	58,776,150
Exercisable at the end of the year (note)	**0.31**	**26,348,390**	0.30	31,561,150

Note: The weighted average exercise prices for options outstanding and exercisable at 31 December 2015 have been adjusted to reflect the change of exercise price approved on 9 March 2010 (note 27(a)(iii)).

(Expressed in United States dollars unless otherwise indicated)

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) 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 June 2025. As at 31 December 2015, the weighted average remaining contractual life for the share options granted under the 2006 and 2010 share option plans was 6.32 years (2014: 5.79 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	**2015**	2014
Fair value at measurement dates	**HK$1.09 to HK$1.37**	HK$1.78 to HK$2.26
Share price	**HK$2.93 to HK$3.82**	HK$4.52 to HK$5.21
Exercise price	**HK$3.02 to HK$3.90**	HK$4.72 to HK$5.35
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**37.45% to 40.79%**	41.68% to 43.67%
Option life	**10 years**	10 years
Suboptimal exercise factor	**2.0**	2.0
Expected dividend yield	**0% to 1.02%**	0%
Average risk-free interest rate	**1.46% to 1.78%**	1.88% to 2.27%
Forfeiture rate	**4.19% to 4.86%**	4.56%

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 2014 and 2015, 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.

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(b) Share award scheme (equity-settled)

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. For the year ended 31 December 2015, the Company granted 4,553,886 shares (2014: 3,247,585) to the Group's executives and purchased 4,567,000 shares (2014: 4,711,000) at cash consideration of US$2,441,000 (2014: US$3,252,000).

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.

(c) Employee share purchase plans ("ESPP") (equity-settled)

During 2014, the Group adopted an ESPP, pursuant to which the Group has transferred 15% equity interest of MP Endo to a partnership, whose general partner is Maxwell Maxcare Science Foundation Limited ("Maxwell Maxcare"), and whose limited partners consisted of employees of the Group.

During 2015, the Group adopted two ESPPs, pursuant to which the Group has transferred 15% equity interest of MP EP and 15.8% equity interest of MP Neuro to respective partnership firms, whose limited partners consisted of employees of the Group.

All participants of the above ESPPs have purchased equity interests in respective partnership firms at amounts specified in the partnership agreements (the "Subscription Amount").

The vesting periods of the above ESPPs are three years as employees participating in the plan have to transfer out their equity interests if their employments with the Group were terminated within three years from the equity interest purchase dates, to a person or a party nominated by the general partners of the partnership firms at a price no higher than the Subscription Amount.

The grant-date fair values of the ESPPs granted during the years ended 31 December 2015 and 2014 were US$430,000 and US$302,000, respectively, based on external valuation reports.

(d) 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:

	2015 US$'000	2014 US$'000
Research and development costs	**530**	552
Distribution costs	**623**	383
Administrative expenses	**1,295**	204
	2,448	1,139

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.

(Expressed in United States dollars unless otherwise indicated)

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

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

Details of the LTI awards are as follows:

	2015		2014	
	Weighted average exercise price US$	**Number of options**	Weighted average exercise price US$	Number of options
Outstanding at the beginning of the year	**0.42**	**12,535,030**	–	–
Granted during the year	**0.42**	**6,513,320**	0.62	12,673,132
Exercised during the year	**0.40**	**(3,234,434)**	–	–
Forfeited during the year	**0.45**	**(4,460,797)**	0.58	(138,102)
Outstanding at the end of the year	**0.48**	**11,353,119**	0.42	12,535,030
Exercisable at the end of the year		**–**		–

As at 31 December 2015, the total carrying amount of the liabilities arising from the LTI awards was US$1,062,554 (2014: US$1,285,000), which is included in other payables and accrued charges, and the total intrinsic value of the liabilities for which the respective employees' right had vested is US$3,234,434 (2014: US$nil).

During the year ended 31 December 2015, 4,460,797 LTI awards were forfeited prior to the vesting as a result of the resignation of employees. Accordingly, reversal of share-based payment expenses of US$800,000 was recognised in consolidated statement of profit or loss.

28 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Accumulated loss US$'000	Total US$'000
Balance at 1 January 2014		14	232,697	6,269	(22,099)	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	*27(d)*	–	–	1,104	–	1,104
Shares issued under the share option plans	*28(c)(iii)*	–	6,736	(3,172)	–	3,564
Equity component of convertible bonds	*25*	–	–	10,574	–	10,574
Shares purchased under share award scheme	*27(b)*	–	–	(3,252)	–	(3,252)
Shares granted under share award scheme		–	–	2,197	–	2,197
Balance at 31 December 2014		14	239,433	13,720	(27,831)	225,336

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

	Note	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	(Accumulated loss)/retained earnings US$'000	Total US$'000
Balance at 1 January 2015		**14**	**239,433**	**13,720**	**(27,831)**	**225,336**
Changes in equity for 2015:						
Profit for the year		–	–	–	239,646	239,646
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	239,646	239,646
Equity-settled share-based transactions	*27(d)*	–	–	2,308	–	2,308
Shares issued under the share option plans	*28(c)(iii)*	–	2,421	(1,068)	–	1,353
Shares purchased under share award scheme	*27(b)*	–	–	(2,441)	–	(2,441)
Shares granted under share award scheme		–	–	2,204	–	2,204
Balance at 31 December 2015		**14**	**241,854**	**14,723**	**211,815**	**468,406**

(b) Dividends

The directors of the Company did not propose the payment of any dividend for the years ended 31 December 2015 and 2014.

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Ordinary shares

	2015		2014	
	No. of shares '000	**Amounts US$'000**	No. of shares '000	Amounts US$'000
Authorised:				
Ordinary shares of US$0.00001 each	**4,987,702**	**50**	4,987,702	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,422,160**	**14**	1,408,995	14
Shares issued under share option plans (note 28(c)(iii))	**4,409**	**–**	13,165	–
At 31 December	**1,426,569**	**14**	1,422,160	14

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

(ii) Purchase of own shares

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

Month/year	**No. of shares repurchased**	**Highest price paid per share** US$	**Lowest price paid per share** US$	**Aggregate considerations paid** US$'000
April 2015 (see note 27(b))	4,367,000	0.56	0.49	2,328
May 2015 (see note 27(b))	200,000	0.57	0.57	113
	4,567,000			2,441

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iii) Shares issued under the share option plans

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

	No. of share options exercised	Consideration	Credited to/(transferred from) Share capital	Share premium	Capital reserve
		US$'000	US$'000	US$'000	US$'000
Options exercised in:					
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)
February 2015	**65,380**	**19**	**–**	**32**	**(13)**
March 2015	**39,200**	**12**	**–**	**24**	**(12)**
April 2015	**323,040**	**97**	**–**	**196**	**(99)**
May 2015	**1,011,720**	**308**	**–**	**408**	**(100)**
June 2015	**300,000**	**92**	**–**	**181**	**(89)**
July 2015	**1,126,400**	**343**	**–**	**643**	**(300)**
August 2015	**12,550**	**3**	**–**	**5**	**(2)**
November 2015	**56,810**	**17**	**–**	**33**	**(16)**
December 2015	**1,473,500**	**462**	**–**	**899**	**(437)**
For the year ended 31 December 2015	**4,408,600**	**1,353**	**–**	**2,421**	**(1,068)**

28 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 27(b)).

– 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 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was US$453,669,000 (2014: US$211,602,000).

28 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 2015 was US$543,345,000 (2014: US$735,243,000).

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 2015. Except for the above, neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay 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, 9% (2014: 11%) and 22% (2014: 22%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	**More than 1 year but less than 2 years US$'000**	**More than 2 years but less than 5 years US$'000**	**More than 5 years US$'000**	**Total US$'000**	**Carrying amount at 31 December US$'000**
Interest-bearing borrowings	**59,552**	**93,751**	**44,686**	**–**	**197,989**	**184,460**
Convertible bonds	**2,525**	**3,497**	**105,728**	**–**	**111,750**	**94,815**
Obligations under finance leases	**1,214**	**15**	**19**	**–**	**1,248**	**1,242**
Trade and other payables	**95,471**	**467**	**341**	**733**	**97,012**	**97,012**
Other liabilities	**7,533**	**–**	**–**	**–**	**7,533**	**7,260**
	166,295	**97,730**	**150,774**	**733**	**415,532**	**384,789**

	2014 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	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 liabilities	–	7,994	–	–	7,994	7,335
	331,525	59,129	206,728	833	598,215	560,911

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

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

(i) Interest rate profile

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

	2015 Effective interest rate	**2015** Amount US$'000	2014 Effective interest rate	2014 Amount US$'000
Net fixed rate instruments:				
Deposits with banks	**0.30%-1.60%**	**12,305**	0%-3.25%	34,909
Obligations under finance leases	**2.56%-8.58%**	**(1,242)**	2.60%-8.08%	(3,762)
		11,063		31,147
Net variable rate instruments:				
Cash at banks	**0%-0.35%**	**87,645**	0.35%	207,195
Deposits with banks	**0.35%-1.35%**	**2,493**	0.02%-4.25%	45,617
Interest-bearing borrowings	**2.22%-5.41%**	**(184,460)**	1.78%-7.66%	(348,714)
Convertible bonds	**5.21%**	**(94,815)**	5.24%	(91,573)
		(189,137)		(187,475)
Total net instruments		**(178,074)**		(156,328)
Net fixed rate instruments as a percentage of total net instruments		**(6.2%)**		(19.9%)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2015, 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$1,443,000 and US$2,233,000, respectively (2014: decreased/increased the Group's profit for the year and retained profits by approximately US$1,567,000 and US$1,957,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2014.

(d) Currency risk

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables, payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and US$ and (ii) IPO proceeds received by the Company were in Hong Kong dollars and were mostly exchanged into RMB or US$.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency are excluded.

Exposure to foreign currencies (expressed in US$)

	2015			2014		
	Euros US$'000	**US$ US$'000**	**RMB US$'000**	Euros US$'000	US$ US$'000	RMB US$'000
Trade and other receivables	**4,655**	**2,558**	**–**	3,486	3,534	–
Cash and cash equivalents	**46**	**7,637**	**703**	–	2,300	79
Deposits with banks	**–**	**11,000**	**–**	–	22,008	–
Trade and other payables	**(1,289)**	**(1,439)**	**–**	(1,025)	(39)	–
Amounts due to group companies	**(7,093)**	**–**	**(2,581)**	(2,373)	–	(45,681)
Amounts due from related parties	**–**	**1,142**	**–**	272	1,489	–
Other liabilities	**–**	**–**	**(7,260)**	–	–	(7,335)
Net exposure arising from recognised assets and liabilities	**(3,681)**	**20,898**	**(9,138)**	360	29,292	(52,937)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2015		2014	
	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%**	**478**	3%	673
	(3)%	**(478)**	(3)%	(673)
RMB (against US$)	**3%**	**(423)**	3%	(1,588)
	(3)%	**423**	(3)%	1,588
Euros (against US$)	**3%**	**81**	3%	111
	(3)%	**(81)**	(3)%	(111)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into US$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of the entities into the Group's presentation currency. The analysis has been performed on the same basis for 2014.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– 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 2015	Fair value measurements as at 31 December 2015 categorised into		
			Level 1	Level 2	Level 3
		US$'000	US$'000	US$'000	US$'000
Recurring fair value measurement					
Liabilities:					
Derivative financial liabilities:					
– Conversion Option of the Otsuka Loans	21(b)	397	–	–	397

		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					
Liabilities:					
Derivative financial liabilities:					
– Conversion Option of the Otsuka Loans	21(b)	592	–	–	592

(Expressed in United States dollars unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Volatility ratio
Conversion Option of the Otsuka Loans	Binomial lattice model	Expected volatility	41.49% (2014: 37.75%)

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 2015, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by US$226,000 and US$177,000, respectively (2014: US$335,000 and US$268,000, respectively). The gain arising from the re-measurement of the Conversion Option of the Otuska Loan is presented in "Other net income" in the consolidated statement of profit or loss.

The movement during the year in the balance of the Level 3 fair value measurements is disclosed in note 21(b).

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 2014.

30 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

	2015 US$'000	2014 US$'000
Contracted for	**22,081**	18,505
Authorised but not contracted for	**49,284**	57,941
	71,365	76,446

(b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 US$'000	2014 US$'000
Within 1 year	**6,967**	5,719
After 1 year but within 5 years	**5,927**	8,834
After 5 years	**–**	45
At 31 December	**12,894**	14,598

The Group leases a number of properties and plants under operating leases. The leases typically run for an initial period of one to ten years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid individuals as disclosed in note 8, is as follows:

	2015 US$'000	2014 US$'000
Salaries and other benefits	**2,911**	2,337
Discretionary bonuses	**1,204**	1,234
Retirement scheme contributions	**50**	60
Equity-settled share-based payment expenses	**1,145**	291
Cash-settled share-based payment expenses	**767**	247
	6,077	4,169

Total remuneration was included in staff costs (note 5(b)).

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Financing arrangement

As mentioned in note 21(b), the Company drew down the Otsuka Loans of US$200,000,000 from Otsuka Medical Devices for purpose of financing its acquisition of the OrthoRecon Business in January 2014 and fully repaid the Term A Loan and the Term C Loan in January 2015.

As at 31 December 2015, the outstanding balance due to Otsuka Medical Devices by the Group was US$38,270,000 (2014: US$197,463,000). Interest expenses and the fair value charge on the derivative component relating to the Otsuka Loans recognised in the consolidated statement of profit or loss during the year ended 31 December 2015 amounted to US$2,438,000 and US$195,000, respectively (2014: US$5,333,000 and US$5,101,000, respectively).

(c) Sales to related parties

For the year ended 31 December 2015 and 2014, 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:

	2015 **US$'000**	2014 US$'000
Sale of goods to:		
JIMRO	**348**	385
Thai Otsuka	**994**	774
Otsuka Philippines	**1,561**	1,329
Otsuka Indonesia	**896**	753
Otsuka Pakistan	**819**	905
MicroPort Sorin CRM	**5**	701
	4,623	4,847
Sale of property, plant and equipment to:		
MicroPort Sorin CRM	**–**	1,192

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sales to related parties (continued)

	2015 **US$'000**	2014 US$'000
Trade debtors from:		
JIMRO	**–**	122
Thai Otsuka	**272**	203
Otsuka Philippines	**279**	167
Otsuka Indonesia	**327**	427
Otsuka Pakistan	**330**	400
MicroPort Sorin CRM	**64**	188
	1,272	1,507

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

(d) Other transactions with related parties

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

	2015 **US$'000**	2014 US$'000
Purchase of goods from MicroPort Sorin CRM	**2,136**	–
Service fee paid to Maxwell Maxcare	**201**	–
Management services fee reimbursed to We'Tron Capital Limited ("We'Tron") (note)	**192**	194

Note: Pursuant to a management services agreement dated 1 January 2014, the Company has assigned We'Tron, which is a substantial shareholder of the Company, to provide management services regarding the Group's daily management and strategic development.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2015 US$'000**	2014 US$'000
Non-current assets			
Investments in subsidiaries		**742,409**	454,958
Current assets			
Trade and other receivables		**36,939**	62,647
Cash and cash equivalents		**7,798**	147,393
		44,737	210,040
Current liabilities			
Trade and other payables		**38,952**	57,699
Interest-bearing borrowings		**5,000**	166,103
Derivative financial liabilities		**397**	592
Other current liabilities		**7,260**	–
		51,609	224,394
Net current liabilities		**(6,872)**	(14,354)
Total assets less current liabilities		**735,537**	440,604
Non-current liabilities			
Interest-bearing borrowings		**129,196**	116,360
Convertible bonds		**94,815**	91,573
Other payables		**43,120**	–
Other non-current liabilities		**–**	7,335
		267,131	215,268
NET ASSETS		**468,406**	225,336
CAPITAL AND RESERVES	*28(a)*		
Share capital		**14**	14
Reserves		**468,392**	225,322
TOTAL EQUITY		**468,406**	225,336

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) On 25 January 2016, Otsuka Medical Devices, the immediate parent of the Company, completed transferring 86,000,000 shares to Erudite Investment Limited (the "Erudite Investment"), which is ultimately controlled by Carlyle Group L.P., ("Carlyle") at an agreed price of HK$3.06 per share. Dr. Zhaohua Chang, the Chairman and CEO of the Company, and nine other executive management of the Company had 42,140,000 non-voting preference shares in the capital of Erudite Investment, at an issue price of HK$3.06 per share.

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

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the directors consider the immediate parent and ultimate controlling party of the Group to be Otsuka Medical Devices and Otsuka Holdings which are both incorporated in Japan. Otsuka Holdings produces financial statements available for public use and Otsuka Medical Devices does not.

(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 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 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
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
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
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 Group's results of operations and financial position, except for the following:

HKFRS 9 Financial Instruments

HKFRS 9 replaces the existing guidance in HKAS 39 *Financial instruments: Recognition and measurement*. HKFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from HKAS 39.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including HKAS 18 *Revenue*, HKAS 11 *Construction contracts* and HK(IFRIC)-Int 13 *Customer Loyalty Programmes*. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The Group does not plan to early adopt the above new standards or amendments. With respect to HKFRSs 9 and 15, given the Group has not completed its assessment of their full impact on the Group, their possible impact on the Group's results of operations and financial position has not been quantified.

MicroPort

MicroPort Scientific Corporation