MicroPort Scientific Corporation

微創醫療科學有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

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

The Group changed its presentation currency from RMB to US$ as the use of US$ is considered more meaningful in presenting the operating results and financial position of the Group after the acquisition of the OrthoRecon business. As a result, the comparative figures in the Group's financial statements are translated from RMB to US$ using the relevant historical rates for equity items, closing rates at the relevant reporting date for other statement of financial position items, and average rates for the relevant year for statement of profit or loss and other comprehensive income items.

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

The board (the "**Board**") of directors (the "**Directors**") of MicroPort Scientific Corporation (the "**Company**") hereby announces the audited annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2014 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

* *See note 3(i)*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

* *See note 3(i)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

(Expressed in United States dollars)

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

* *See note 3(i)*

	Note	2014	2013	1 January 2013
		US$'000	*US$'000*	*US$'000*
			(Restated)*	*(Restated*)*
Non-current liabilities				
Interest-bearing borrowings	*13*	**132,817**	21,964	430
Convertible bonds	*14*	**91,573**	–	–
Obligations under finance leases		**1,894**	–	–
Deferred income		**28,989**	16,982	11,316
Other payables		**1,793**	–	–
Other non-current liabilities		**7,335**	7,053	6,472
Deferred tax liabilities		**3,558**	4,417	4,602
		267,959	50,416	22,820
NET ASSETS		**343,743**	390,433	369,084
CAPITAL AND RESERVES				
Share capital	*8*	**14**	14	14
Reserves		**342,239**	390,419	369,070
Total equity attributable to equity shareholders of the Company		**342,253**	390,433	369,084
Non-controlling interests		**1,490**	–	–
TOTAL EQUITY		**343,743**	390,433	369,084

* *See note 3(i)*

1 Statement of compliance

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

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

2 Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries 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.

3 Changes in accounting policies

(i) Change in presentation currency

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

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

(ii) Application of new and revised HKFRSs

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

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

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

4 Turnover and segment reporting

(a) Turnover

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

Revenue by major category of products is as follows:

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

For the year ended 31 December 2014, the Group's customer base is diversified and includes no customer (2013: one customer) with whom transactions have exceeded 10% of the Group's revenue.

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

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of businesses and geographic locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following seven reportable segments. The information relating to the newly acquired OrthoRecon Business has been included in the orthopedic devices business segments.

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

(i) Segment results, assets and liabilities

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

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

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

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

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

	2014							
	Orthopedics devices business *US$'000*	**Cardiovascular devices business** *US$'000*	**Endovascular devices business** *US$'000*	**Electrophysiology devices business** *US$'000*	**Neurovascular devices business** *US$'000*	**Surgical management business** *US$'000*	**Diabetes care and endocrinal management business** *US$'000*	**Total** *US$'000*
Revenue from external customers	**210,371**	**111,872**	**14,100**	**4,807**	**6,285**	**5,802**	**2,047**	**355,284**
Reportable segment net profit/(loss)	**(65,225)**	**25,052**	**2,957**	**(1,985)**	**1,456**	**(14,621)**	**(1,174)**	**(53,540)**
Depreciation and amortisation for the year	**28,630**	**7,834**	**360**	**176**	**342**	**712**	**170**	**38,224**
Income tax	**423**	**4,861**	**550**	**–**	**271**	**(48)**	**–**	**6,057**
Write-down of inventories	**591**	**559**	**–**	**–**	**–**	**–**	**1,218**	**2,368**
Impairment losses of non-current assets								
– Intangible assets	**1,050**	**–**	**–**	**–**	**–**	**–**	**–**	**1,050**
– Goodwill	**6,451**	**5,125**	**–**	**–**	**–**	**11,719**	**–**	**23,295**
Reportable segment assets	**398,739**	**417,341**	**13,992**	**12,625**	**7,537**	**27,467**	**5,873**	**883,574**
Additions to non-current segment assets	**201,305**	**54,649**	**474**	**2,081**	**1,672**	**954**	**42**	**261,177**
Reportable segment liabilities	**135,895**	**139,996**	**3,157**	**7,187**	**2,418**	**9,770**	**6,052**	**304,475**

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

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

	2014	2013
	US$'000	*US$'000*
Profit		
Reportable segment net (loss)/profit	**(53,540)**	42,837
Equity-settled share-based payment expenses	**(1,139)**	(1,813)
Unallocated exchange gain	**16**	889
Unallocated income and expenses	**(4,908)**	(17,916)
Consolidated (loss)/profit for the year	**(59,571)**	23,997
Assets		
Reportable segment assets	**883,574**	430,987
Elimination of inter-segment receivables	**(93,846)**	(33,104)
	789,728	397,883
Unallocated corporate assets:		
– Cash and cash equivalents	**148,128**	119,603
– Others	**1,878**	1,360
	150,006	120,963
Consolidated total assets	**939,734**	518,846
Liabilities		
Reportable segment liabilities	**304,475**	124,767
Elimination of inter-segment payables	**(93,846)**	(33,104)
	210,629	91,663
Deferred tax liabilities	**2,102**	2,123
Convertible bonds	**91,573**	–
Derivative financial liabilities	**592**	–
Interest-bearing borrowings	**282,463**	15,000
Unallocated corporate liabilities	**8,632**	19,627
Consolidated total liabilities	**595,991**	128,413

(iii) Geographical information

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

Revenue from external customers

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

Specified non-current assets

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

5 Other revenue and net income

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

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

	2014	2013
	US$'000	*US$'000*
Other net income		
Net loss on disposal of property, plant and equipment	**(1,493)**	(5)
Net foreign exchange (loss)/gain	**(1,504)**	27
Changes in fair value of embedded financial derivatives (note 13(b))	**5,101**	–
Others	**(159)**	190
	1,945	212

6 (Loss)/profit before taxation

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

	2014	2013
	US$'000	*US$'000*
(a) Finance costs		
Interest on the Otsuka loans (note 13(b))	**5,333**	–
Interest on the convertible bonds (note 14)	**2,998**	–
Interest on other interest-bearing borrowings	**4,425**	975
Finance charges on obligations under finance leases	**55**	–
Others	**690**	153
Total interest expense on financial liabilities not at fair value through profit or loss	**13,501**	1,128
Less: interest expense capitalised into property, plant and equipment	**(545)**	(73)
	12,956	1,055

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

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

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

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

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.

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

[#] Cost of inventories includes US$50,690,000 (2013: US$12,880,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

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

Research and development costs (other than amortisation costs of intangible assets) includes staff costs of the research and development department of US$27,862,000 (2013: US$12,969,000), depreciation of the relevant property, plant and equipment of US$2,319,000 (2013: US$1,420,000) and cost of inventories of US$8,556,000 (2013: US$6,053,000), which are included in the total staff cost as disclosed in note 6(b), depreciation as disclosed in note 6(c) and cost of inventories, respectively.

7 Income tax in the consolidated statement of profit or loss

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

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

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

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

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

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

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

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

As at 31 December 2014, based on management's assessment of the probability on the future taxable profit subsequent to the date of the reporting period, no deferred tax assets had been recognised for tax losses and deductible temporary differences of certain loss-making entities.

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

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

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

8 Dividends and share capital

(a) Dividends

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

No dividend was proposed during 2014 and 2013.

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

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

(b) Share capital

(i) Ordinary shares

	2014		2013	
	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	1,408,995	14	1,406,730	14
Shares issued under share option plans	13,165	–	5,480	–
Repurchase of shares	–	–	(3,215)	–
At 31 December	1,422,160	14	1,408,995	14

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

(ii) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	**No. of shares repurchased**	**Highest price paid per share** *US$*	**Lowest price paid per share** *US$*	**Aggregate considerations paid** *US$'000*
April 2014	4,711,000	0.70	0.68	3,252

9 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

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

(i) Weighted average number of ordinary shares

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

(b) Diluted (loss)/earnings per share

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

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

	2014 *US$'000*	2013 *US$'000*
(Loss)/profit attributable to equity shareholders of the Company (basic)	**(59,461)**	23,997
Effect of effective interest on the Term B Loan	**2,488**	–
Effect of changes in fair value recognised as gains for the derivative component of Term B Loan	**(5,101)**	–
(Loss)/profit attributable to equity shareholders of the Company (diluted)	**(62,074)**	23,997

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

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

The calculation of diluted loss per share amount for the year ended 31 December 2014 has not included the potential effect of (1) the deemed issuance of shares under the Company's share option scheme during the year; and (2) the deemed conversion of the convertible bonds (note 14) into ordinary shares during the year, as they all have an anti-dilutive effect on the basic loss per share amount for the year.

10 Goodwill

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

Impairment tests for cash-generating unit containing goodwill

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

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

Goodwill of US$54,458,000 arising from the acquisition of the OrthoRecon Business from Wright Medical was recorded during year ended 31 December 2014 (see note 15).

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

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

As at 31 December 2014, the recoverable amounts of the CGUs under orthopedics devices business and surgical management business are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculations are as follows, which are based on either the past experience or external sources of information:

	Surgical Management business	**Orthopedics devices business – OrthoRecon Business**	**Orthopedics devices business – others**
Annualised revenue growth rate during the forecast period	13%~20%	4%~12%	14%~28%
Gross profit ratio	43%~49%	65%~68%	52%~65%
Steady growth rate used in the extrapolation after 5 years	3%	3%	3%
Pre-tax discount	18%	22%	21%

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

Orthopedics devices business-Others

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

Surgical management business

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

11 Trade and other receivables

	2014	2013	1 January 2013
	US$'000	*US$'000*	*US$'000*
Trade debtors:			
– third party customers	**100,263**	58,623	64,437
– related parties	**1,507**	1,231	949
	101,770	59,854	65,386
Less: Allowance for doubtful debts (note 11(b))	**(3,896)**	(2,175)	(1,261)
	97,874	57,679	64,125
Other debtors	**11,018**	3,109	3,308
Income tax recoverable	**315**	–	–
Loans and receivables	**109,207**	60,788	67,433
Deposits and prepayments	**12,723**	2,476	1,597
	121,930	63,264	69,030

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:

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

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

(b) Impairment of trade receivables

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

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

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

The Group's trade debtors of US$3,896,000 (2013: US$2,175,000) were individually determined to be impaired as at 31 December 2014. The individually impaired receivables related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered.

(c) Trade debtors that are not impaired

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

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

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

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

12 Trade and other payables

	2014	2013	1 January 2013
	US$'000	*US$'000*	*US$'000*
Current			
Trade payables	**55,226**	11,964	9,240
Other payables and accrued charges	**52,419**	32,529	18,075
Dividends payable to ordinary shareholders	**89**	89	87
	107,734	44,582	27,402
Advances received	**915**	924	409
	108,649	45,506	27,811
Non-current			
Other payables and accrued charges	**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:

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

13 Interest-bearing borrowings

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

	2014	2013	1 January 2013
	US$'000	*US$'000*	*US$'000*
Within 1 year or on demand	**215,897**	29,629	3,260
After 1 year but within 2 years	**43,173**	1,737	81
After 2 year but within 5 years	**89,644**	20,227	256
After 5 years	**–**	–	93
	132,817	21,964	430
	348,714	51,593	3,690

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

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

(a) Bank loans

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

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

One of the Group's banking facilities of US$5,000,000 (2013: US$11,389,000) is subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenant, drawn down would become payable on demand. The Group regularly monitors its compliance with the covenants. As at 31 December 2014 none of the covenants relating to drawn down facilities had been breached.

(b) Otsuka Loans

For the purpose of financing the acquisition of a worldwide hip and knee orthopedic reconstruction business (see note 15), the Company entered into a credit agreement (the "Credit Agreement") with Otsuka Medical Devices Co., Ltd. ("Otsuka Medical Devices"), a subsidiary of Otsuka Holdings Co., Ltd.. Pursuant to the Credit Agreement dated 15 December 2013, Otsuka Medical Devices agreed to provide to the Company certain credit facilities of up to US$200,000,000, consisting of three tranches of loans, namely, the Term A Loan, Term B Loan and Term C Loan (collectively, the "Otsuka Loans").

The Otsuka Loans bear interests on the outstanding principal amount thereof for the respective interest periods at a rate equal to LIBOR plus 1% per annum. The grant of the above credit facility by Otsuka Medical Devices is conditional on an purchase option agreement entered into by the Group and Otsuka Medical Devices, pursuant to which Otsuka Medical Devices shall have the option to purchase the entire equity interest in Wright Medical Japan K.K., a subsidiary acquired by the Group in the aforementioned acquisition, at the cash consideration of US$60,000,000 (the "Purchase Option"). The Purchase Option is exercisable at Otsuka Medical Devices' sole discretion at any time during the two-month period commencing 90 days before the maturity of the Term A Loan. The Otsuka loans are guaranteed by certain subsidiaries of the Company and are secured by the equity interests of certain subsidiaries of the Company and by substantially all of the assets of the aforementioned acquisition.

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

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

The Term B Loan is of a principal amount of US$40,000,000 and has a maturity date falling three years after drawdown. Term B Loan contains a conversion option (the "Conversion Option") which enables the holder to convert the outstanding amount of the Term B Loan and certain unpaid interest amounts of the Term B Loan into certain number of the Company's ordinary shares at any time prior to its maturity. The Conversion Option is considered as an embedded derivative component of the Term B Loan which is separated from the host contract. The liability component of the Term B Loan is classified as non-current liability.

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

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

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

	Liability component *US$'000*	**Derivative component** *US$'000*	**Total** *US$'000*
Upon the issuance of the Otsuka Loans			
Proceeds received for the issuance of the Otsuka Loans	194,307	5,693	200,000
Transaction costs on the issuance of the Otsuka Loans	(825)	–	(825)
Changes in fair value recognised in profit or loss during the year (note 5)	–	(5,101)	(5,101)
Interest charged during the year (note 6(a))	5,333	–	5,333
Interest paid during the year	(1,352)	–	(1,352)
As at 31 December 2014	197,463	592	198,055

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

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

14 Convertible bonds

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

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

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

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

	Liability component	**Equity component**	**Total**
	US$'000	*US$'000*	*US$'000*
Upon the issuance of the GIC Convertible Bonds	89,426	10,574	100,000
Interest charged during the year (note 6(a))	2,998	–	2,998
Interest paid during the year	(851)	–	(851)
As at 31 December 2014	91,573	10,574	102,147

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

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

15 Acquisition of subsidiaries

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

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

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

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

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

BUSINESS OVERVIEW

Overview

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

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

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

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

Orthopedic Devices

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

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

1) SuperPath® micro posterior approach total hip reconstruction technique

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

2) BIOFOAM™ CANCELLOUS TITANIUM™, a new generation trabecular metal technology

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

3) EVOLUTION® Medial Pivot Knee System

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

4) PROPHECY™ Pre-Operative Navigation Guiding System

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

5) REPIPHYSIS® Oncology auto-expandable endoprosthesis

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

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

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

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

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

Cardiovascular Devices

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

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

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

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

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

Firehawk was approved for market launch by the CFDA on 28 January 2014, and 24 specifications were approved by the CFDA to be added afterwards. As of 31 December 2014, Firehawk has been used in 60 hospitals in 17 provinces/cities of China. On 23 January 2015, Firehawk received the CE mark approval, which provides the preconditions for the Company to penetrate the European DES markets with the sale of Firehawk in the European Economic Area, and will further propel the Group towards becoming a global medical devices provider. Based on the existing clinical study on Firehawk, we'll also carry out a large randomised trial in Europe-TARGET All Comer trial to further study the clinical results of Firehawk.

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

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

Endovascular Devices

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

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

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

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

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

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

Electrophysiological Devices

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

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

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

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

Neurovascular Devices

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

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

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

Surgical Management

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

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

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

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

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

Diabetes Care and Endocrinal Management

The primary focus of the diabetes care and endocrinal segment is on the development, manufacture, monitoring and management of medical devices for the treatment of diabetes and endocrinal. The major products include La Fenice™ Insulin pump, a medical aid for treatment of diabetics, and La Fenice® Hypophyseal Hormone Infusion Pump, an endocrinal management device used for the treatment of Idiopathic Hypogonadotropic Hypogonadism (IHH), which is also known as Kallmann Syndrome.

In 2014, La Fenice® Hypophyseal Hormone Infusion Pump was awarded high-tech project by Science and Technology Commission of Shanghai Municipality.

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

Joint Ventures

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

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

Research and Development

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

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

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

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

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

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

Manufacturing

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

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

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

On safe production, the Company made efforts in improvement of safety consciousness of operating personnel through safety training, and conducted regular inspections to find potential safety hazards and eliminate them in time. In 2014, there were no major safety accidents in the Company, and the Company passed all government inspections on environment protection, safety supervision, and fire prevention.

Quality Assurance ("QA")

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

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

Competition

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

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

Intellectual Property

Intellectual property, an intangible asset of the Company, is an important factor to enhance our competitiveness in the medical devices market. Thus, we have become increasingly focused on our intellectual property. We strive to provide the highest quality medical devices and excellent service and create a unique company that is a recognised "Global Brand Belonging to Patients and Doctors". We also seek to aggressively protect innovation and technology by patents and trade secrets both domestically and in significant foreign markets.

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

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

FINANCIAL REVIEW

Overview

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

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

Turnover

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

– *Orthopedic devices segment*

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

– *Cardiovascular devices segment*

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

– *Endovascular devices segment*

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

– *EP devices segment*

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

– *Neurovascular devices segment*

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

– *Surgical management segment*

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

– *Diabetes care and endocrinal management segment*

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

Cost of sales

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

Gross profit and gross profit margin

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

Other revenue and other net income

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

Research and development costs

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

Distribution costs

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

Administrative expenses

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

Other operating costs

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

Finance costs

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

Income tax

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

Net (loss)/profit

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

Liquidity and financial resources

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

Borrowing and gearing ratio

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

Working capital

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

Foreign exchange exposure

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

Capital expenditure

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

Acquisition

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

Charge on assets

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

Contingent liabilities

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

Human resources

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

PROSPECT

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

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

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

2. **Deepen our internationalisation**

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

3. **Diversification of existing and new products through innovation**

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

4. **Developing and improving our existing products**

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

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2014, the Company complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the exceptions of Code Provisions A.2.1 and A.6.7 as addressed below:

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

- Paragraph A.6.7 of the Code Provisions requires that the non-executive directors and the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. During the financial year ended 31 December 2014, an annual general meeting was held on 30 June 2014 at which Mr. Jonathan H. Chou and Dr. Guoen Liu did not attend due to other business engagements.

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

AUDIT COMMITTEE

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

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

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

The main duties of the Audit Committee include the following:

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

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

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2014, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

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

Save and except for the 4,711,000 shares of the Company (the "Shares") purchased, through the trustee of the share award scheme at cash consideration of US$3,252,000 on The Stock Exchange of Hong Kong Limited in April 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

ISSUANCE OF CONVERTIBLE BONDS

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

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

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the financial year ended 31 December 2014 as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on 29 June 2015. The notice of AGM will be sent to Shareholders at least 20 clear business days before AGM.

FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the financial year ended 31 December 2014 (2013: nil).

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 26 June 2015 to Monday, 29 June 2015, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of Shares, accompanied by the relevant Share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Service Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 25 June 2015.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company at http://www.microport.com.cn and the Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk. The 2014 annual report of the Company will be despatched to Shareholders in due course and will also be available at the websites above at the same time.

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

Shanghai, the People's Republic of China, 31 March 2015

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

* *for identification purpose only*