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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of MicroPort Scientific Corporation (stock code: 00853) (the "Company", "MicroPort") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2015, which have been reviewed by the Company's audit committee (the "Audit Committee"). The financial highlights of the Group for the six months ended 30 June 2015 together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended 30 June		
	2015	2014	Change
	US$'000	*US$'000*	%
	(unaudited)	(unaudited)	
Revenue	**191,245**	183,795	4.1%
Gross Profit	**128,341**	128,597	(0.2%)
Loss for the period	**(2,587)**	(9,943)	(74.0%)
Loss per share –			
Basic (in cents)	**(0.21)**	(0.71)	(70.4%)
Diluted (in cents)	**(0.21)**	(0.75)	(72.0%)

For the six months ended 30 June 2015 ("the reporting period"), the Group achieved revenue of approximately US$191.2 million, representing a growth rate of 4.1% as compared to the corresponding period in 2014. It is recorded that our revenue in local currency terms increased by 7.4% which was offset by the exchange difference impact of 3.3% resulted from the translation of local currency revenues into US$, the Group's reporting currency. Such local currency revenue increase was primarily attributable to the increase of revenue in business segments including cardiovascular devices business, endovascular devices business, neurovascular devices business, electrophysiology ("EP") devices business and orthopedics devices business in China. The loss for the reporting period decreased from approximately US$9.9 million for the six months ended 30 June 2014 to US$2.6 million, representing a 74.0% decrease as compared with the corresponding period in 2014. The improvement on the net loss was mainly attributed to our continuing focus on growing revenue, controlling manufacturing and operating costs to be in line with the revenue and improving operating efficiencies especially for our global orthopedics business.

The financial information set out below in this announcement represents an extract from the interim financial report, which are unaudited but have been reviewed by the Group's independent auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 and by the Audit Committee. KPMG's unmodified review report will be included in the interim report to be sent to the shareholders of the Company (the "Shareholders").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2015 (unaudited)
(Expressed in United States dollars)

		Six months ended 30 June	
	Note	**2015**	2014
		US$'000	*US$'000*
Revenue	*3*	**191,245**	183,795
Cost of sales		**(62,904)**	(55,198)
Gross profit		**128,341**	128,597
Other revenue	*4*	**2,041**	3,826
Other net (loss)/gain	*4*	**(1,014)**	2,540
Research and development costs		**(24,712)**	(22,819)
Distribution costs		**(59,122)**	(64,151)
Administrative expenses		**(31,019)**	(32,087)
Other operating costs		**(1,843)**	(15,225)
Profit from operations		**12,672**	681
Finance costs	*5(a)*	**(7,855)**	(5,071)
Share of losses of a joint venture		**(1,913)**	(1)
Profit/(loss) before taxation	*5*	**2,904**	(4,391)
Income tax	*6*	**(5,491)**	(5,552)
Loss for the period		**(2,587)**	(9,943)
Attributable to:			
Equity shareholders of the Company		**(2,961)**	(9,943)
Non-controlling interests		**374**	–
Loss for the period		**(2,587)**	(9,943)
Loss per share	*7*		
– Basic (in cents)		**(0.21)**	(0.71)
– Diluted (in cents)		**(0.21)**	(0.75)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2015 (unaudited)
(Expressed in United States dollars)

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Loss for the period	**(2,587)**	(9,943)
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**(1,820)**	(5,210)
Other comprehensive income for the period	**(1,820)**	(5,210)
Total comprehensive income for the period	**(4,407)**	(15,153)
Attributable to:		
Equity shareholders of the Company	**(4,783)**	(15,153)
Non-controlling interests	**376**	–
Total comprehensive income for the period	**(4,407)**	(15,153)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2015 (unaudited)
(Expressed in United States dollars)

	Note	At 30 June 2015		At 31 December 2014	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current assets					
Property, plant and equipment	*8*		**264,728**		267,780
Land use rights			**18,694**		18,886
			283,422		286,666
Intangible assets			**62,282**		60,506
Prepayments for non-current assets			**3,217**		1,678
Goodwill			**56,529**		56,529
Interest in a joint venture			**3,555**		3,866
Deferred tax assets			**2,936**		4,124
Time deposits	*12*		**11,450**		11,440
Other non-current assets	*9*		**7,448**		6,813
			430,839		431,622
Current assets					
Inventories	*10*	**109,299**		109,901	
Trade and other receivables	*11*	**128,822**		121,930	
Time deposits	*12*	**50,599**		60,679	
Cash and cash equivalents	*13*	**69,288**		215,602	
		358,008		508,112	
Current liabilities					
Trade and other payables	*14*	**92,980**		108,649	
Interest-bearing borrowings	*15*	**94,111**		215,897	
Income tax payable		**2,782**		1,016	
Deferred income	*16*	**8**		10	
Derivative financial liabilities	*15(b)*	**446**		592	
Obligations under finance leases		**2,228**		1,868	
		192,555		328,032	
Net current assets			**165,453**		180,080
Total assets less current liabilities			**596,292**		611,702

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2015 (unaudited)
(Expressed in United States dollars)

	Note	**At 30 June 2015**		At 31 December 2014	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current liabilities					
Interest-bearing borrowings	*15*	**117,562**		132,817	
Convertible bonds	*17*	**93,915**		91,573	
Obligations under finance leases		**374**		1,894	
Deferred income	*16*	**30,353**		28,989	
Other payables	*14*	**2,545**		1,793	
Other non-current liabilities		**7,524**		7,335	
Deferred tax liabilities		**3,485**		3,558	
			255,758		267,959
Net assets			**340,534**		343,743
Capital and reserves	*18*				
Share capital			**14**		14
Reserves			**338,654**		342,239
Total equity attributable to equity shareholders of the Company			**338,668**		342,253
Non-controlling interests			**1,866**		1,490
Total equity			**340,534**		343,743

1. Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of MicroPort Scientific Corporation (the "Company") and its subsidiaries (together, the "Group") since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company and approved for issue by the Board of Directors on 31 August 2015. The interim financial report has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2015.

2. Changes in accounting policies

(a) Change in cost formula of inventories

During the six months ended 30 June 2015, the Group changed its accounting policy for the cost formula of inventories, from weighted average cost formula to first-in, first-out cost formula ("FIFO") as we believe the FIFO method better reflects the current value of inventories as a result of the Group's continuous effort to optimise the procurement and product process in connection with its integration of the OrthoRecon business and the characteristics of the frequent upgrade of the orthopedics products. The adoption of the new policy does not have material impact on the financial information for both current and prior periods. Therefore, the new accounting policy is applied prospectively from 1 January 2015 and comparatives have not been restated.

2. Changes in accounting policies *(continued)*

(b) Application of new and revised HKFRSs

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

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

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

3. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of business 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 identified seven reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Six months ended 30 June 2015							
	Cardiovascular devices business *US$'000*	Orthopedics devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Revenue from external customers	66,584	105,885	7,947	2,615	3,644	3,636	934	191,245
Reportable segment net profit/(loss)	23,721	(15,878)	2,618	(947)	1,479	(1,542)	(722)	8,729

	At 30 June 2015							
	Cardiovascular devices business *US$'000*	Orthopedics devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Reportable segment assets	426,709	385,831	22,684	12,911	11,086	29,483	5,657	894,361
Reportable segment liabilities	118,584	139,139	8,546	8,484	5,606	9,649	6,549	296,557

3. Segment reporting *(continued)*

(a) Information about profit or loss, assets and liabilities (continued)

	Six months ended 30 June 2014							
	Cardiovascular devices business *US$'000*	Orthopedic devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Revenue from external customers	58,602	109,204	6,512	2,247	3,060	3,150	1,020	183,795
Reportable segment net profit/(loss)	19,939	(27,360)	2,171	(493)	1,174	(329)	(488)	(5,386)

	At 31 December 2014							
	Cardiovascular devices business *US$'000*	Orthopedics devices business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical management business *US$'000*	Diabetes care and endocrinal business *US$'000*	Total *US$'000*
Reportable segment assets	417,341	398,739	13,992	12,625	7,537	27,467	5,873	883,574
Reportable segment liabilities	139,996	135,895	3,157	7,187	2,418	9,770	6,052	304,475

The measure used for reporting segment profit/(loss) is "reportable segment net profit/(loss)", which represents the profit/(loss) for the year/period attributable to each of the reportable segments. Items that are not specifically attributed to individual segments, such as unallocated exchange gain/(loss), unallocated corporate income and expenses, equity-settled share-based payment expenses and the People's Republic of China (the "PRC") dividend withholding tax are excluded from reportable segment net profit/(loss).

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Reportable segment net profit/(loss)	**8,729**	(5,386)
Equity-settled share-based payment expenses	**(3,093)**	(2,858)
Unallocated exchange (loss)/gain	**(1,244)**	1,540
Unallocated expenses, net	**(6,979)**	(3,239)
Consolidated loss for the period	**(2,587)**	(9,943)

4. Other revenue and net (loss)/gain

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Other revenue		
Government grants	**841**	1,574
Interest income on bank deposits	**1,200**	1,782
Others	**–**	470
	2,041	3,826
Other net (loss)/gain		
Net foreign exchange (loss)/gain	**(839)**	1,396
Changes in fair value of embedded financial derivatives (note 15(b))	**146**	1,900
Others	**(321)**	(756)
	(1,014)	2,540

5. Profit/(loss) before taxation

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

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
(a) Finance costs		
Interest on the Otsuka Loans (note 15(b))	**1,175**	2,297
Interest on the convertible bonds (note 17)	**2,342**	576
Interest on other borrowings	**3,140**	2,173
Others	**1,198**	570
Total interest expense on financial liabilities not at fair value through profit or loss	**7,855**	5,616
Less: interest expense capitalised into property, plant and equipment*	**–**	(545)
	7,855	5,071

* During the six months ended 30 June 2014, the borrowing costs have been capitalised at a rate of 6.4% per annum.

5. Profit/(loss) before taxation *(continued)*

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

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
(b) Other items		
Amortisation of intangible assets	**2,474**	2,426
Depreciation	**16,374**	16,082
Research and development costs (note)	**24,712**	22,819
Provision of inventories write-down (note 10)	**278**	193
Impairment loss of goodwill	**–**	5,125

Note: The Research and development costs includes amortisation of intangible assets of US$84,000 (six months ended 30 June 2014: US$67,000) and depreciation of property, plant and equipment of US$1,869,000 (six months ended 30 June 2014: US$1,139,000), which are included in the total amortisation and depreciation charges as disclosed above.

6. Income tax

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Current tax – PRC corporate income tax ("CIT")	**3,817**	3,940
Current tax – other jurisdictions	**599**	628
	4,416	4,568
Deferred taxation	**1,075**	984
	5,491	5,552

Pursuant to the CIT Law of the PRC, all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25% except for 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 MicroPort Spine & Trauma Co., Ltd. ("Suzhou MicroPort", formerly known as "Suzhou Health Medical Appliance Co., Ltd.") 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 CIT for MP Shanghai, Dongguan Kewei and Suzhou MicroPort is calculated by applying the income tax rate of 15% for the six months ended 30 June 2015 (six months ended 30 June 2014: 15%).

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

As at 30 June 2015, based on management's assessment of 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.

7. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of US$2,961,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: US$9,943,000) and the weighted average of 1,413,510,000 ordinary shares in issue during the six months ended 30 June 2015 (six months ended 30 June 2014: 1,404,630,000 ordinary shares).

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2015	2014
	Number of shares	Number of shares
	'000	*'000*
Issued ordinary shares at 1 January	**1,422,160**	1,408,995
Effect of shares issued under the share options scheme	**340**	3,462
Effect of shares under share award scheme	**(8,990)**	(7,827)
Weighted average number of ordinary shares at 30 June	**1,413,510**	1,404,630

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of US$2,961,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: US$10,863,000) and the weighted average shares of 1,413,510,000 shares for the six months ended 30 June 2015 (six months ended 30 June 2014: 1,450,084,000 ordinary shares, after adjusting for the effects of all dilutive potential ordinary shares), calculated as follows:

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

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Loss attributable to equity shareholders of the Company (basic)	**(2,961)**	(9,943)
Effect of effective interest on the Term B Loan	**–**	980
Effect of changes in fair value recognised as gains for the derivative component of the Otsuka Loans	**–**	(1,900)
Loss attributable to equity shareholders of the Company (diluted)	**(2,961)**	(10,863)

7. Loss per share *(continued)*

(b) Diluted loss per share (continued)

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

	Six months ended 30 June	
	2015	2014
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares at 30 June (basic)	**1,413,510**	1,404,630
Effect of the potential conversion of the Term B Loan	**–**	45,454
Weighted average number of ordinary shares at 30 June (diluted)	**1,413,510**	1,450,084

The calculation of diluted loss per share amount for the six months ended 30 June 2015 has not included the potential effect of (1) the deemed issuance of shares under the Company's share option scheme during the period; and (2) the deemed conversion of the convertible bonds and the Term B Loan into ordinary shares during the period, as they both have an anti-dilutive effect on the basic loss per share amount for the period.

8. Property, plant and equipment

During the six months ended 30 June 2015, the Group acquired items of property and equipment with a cost of US$7,376,000 (six months ended 30 June 2014: US$141,719,000), and incurred construction costs for buildings of US$7,513,000 (six months ended 30 June 2014: US$5,954,000).

9. Other non-current assets

	At 30 June	At 31 December
	2015	2014
	US$'000	*US$'000*
Prepaid royalties	**4,611**	6,033
Prepaid arrangement fees	**1,790**	–
Deposits	**551**	560
Others	**496**	220
	7,448	6,813

The prepaid royalty represents upfront payments made to buy out certain royalty agreements with health care professionals such as surgeons who help in designing orthopedics products. The prepaid royalty will be amortised over the remaining agreement period based on actual sales. The prepaid royalty expected to be amortised within one year is classified as "current" and included in trade and other receivables in note 11.

9. Other non-current assets *(continued)*

Pursuant to a long-term syndicated bank borrowing agreement dated 29 June 2015 (the "Loan Agreement"), the Company could draw down bank borrowings up to a total amount of US$60,000,000. Under the Loan Agreement, the Group is also required to pay a total amount of US$4,196,000 syndicated fees and as at 30 June 2015, the Company had prepaid US$1,790,000 pursuant to the payment schedule as specified in the Loan Agreement. The Company drew down US$52,000,000 bank loans under the Loan Agreement on 2 July 2015, which will be due by six instalments during the period from 1 July 2017 to 30 December 2019. The prepaid syndicated fees at 30 June 2015 are deferred and treated as an adjustment to the effective interest rates of the bank loans drawn down under the Loan Agreement and recognised as an expense from the borrowing date through maturity date of the bank loans that are to be drawn down under the Loan Agreement.

10. Inventories

During the six months ended 30 June 2015, a provision of US$278,000 (six months ended 30 June 2014: US$193,000) to write down certain inventories items to their estimated net realisable value has been recognised as an expense in profit or loss.

11. Trade and other receivables

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

	At 30 June 2015	At 31 December 2014
	US$'000	*US$'000*
Less than 1 month	**37,575**	30,602
1 to 3 months	**43,673**	39,745
3 to 12 months	**15,991**	22,456
More than 12 months	**5,988**	5,071
Trade receivables net of allowance for doubtful debts	**103,227**	97,874
Other debtors	**10,123**	11,018
Income tax recoverable	**–**	315
Deposit and prepayments	**15,472**	12,723
	128,822	121,930

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

12. Time deposits

	At 30 June 2015	At 31 December 2014
	US$'000	*US$'000*
Non-current		
Pledged deposits with original maturities after one year	**11,450**	11,440
Current		
Deposits with original maturities over three months	**16,308**	26,502
Pledged deposits with original maturities within one year	**34,291**	34,177
	50,599	60,679

Included in pledged deposits at 30 June 2015 were US$106,000 (31 December 2014: US$106,000) and US$44,982,000 (31 December 2014: US$44,942,000) which were pledged as security for a long-term loan from Shanghai Municipal Financial Administration ("SMFA") and a banking facility, respectively.

13. Cash and cash equivalents

	At 30 June 2015	At 31 December 2014
	US$'000	*US$'000*
Cash at bank and on hand	**68,474**	215,602
Deposits with original maturities within three months	**814**	–
	69,288	215,602

14. Trade and other payables

As of the end of the reporting period, the aging analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2015	At 31 December 2014
	US$'000	*US$'000*
Current		
Within 1 month	**13,694**	17,681
1 to 3 months	**7,248**	11,137
Over 3 months but within 6 months	**752**	275
Over 6 months but within 1 year	**1,859**	26,133
Over 1 year	**25,020**	–
Trade payables	**48,573**	55,226
Advances received	**1,665**	915
Dividends payables to ordinary shareholders	**89**	89
Other payables and accrued charges	**42,653**	52,419
	92,980	108,649
Non-current		
Other payables and accrued charges	**2,545**	1,793

All current trade and other payables are expected to be settled within one year.

15. Interest-bearing borrowings

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

	At 30 June 2015	At 31 December 2014
	US$'000	*US$'000*
Within 1 year or on demand	**94,111**	215,897
After 1 year but within 2 years	**77,371**	43,173
After 2 years but within 5 years	**40,191**	89,644
	117,562	132,817
	211,673	348,714

As of the end of the reporting period, the interest-bearing borrowings comprise:

	Note	**At 30 June 2015**	At 31 December 2014
		US$'000	*US$'000*
Bank loans			
– secured	*(a)*	**57,665**	57,813
– unsecured		**116,357**	92,977
		174,022	150,790
Secured Otsuka Loans	*(b)*	**37,280**	197,463
Secured loan from SMFA		**371**	461
		211,673	348,714

(a) Bank loans

At 30 June 2015, a banking facility of the Company of US$40,000,000 (31 December 2014: US$40,000,000) is secured by mortgages over deposits with banks of US$44,982,000 of MP Shanghai (31 December 2014: US$44,942,000).

At 30 June 2015, the bank loan of MP Shanghai of US$17,665,000 (31 December 2014: US$17,813,000) are secured by mortgages over certain land use rights and property, plant and equipment with an aggregate carrying value of US$4,811,000 and US$75,867,000 respectively (31 December 2014: US$4,862,000 and US$76,713,000, respectively).

15. Interest-bearing borrowings *(continued)*

(b) Otsuka Loans

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

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

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

The remaining balance of the Otsuka loans at 30 June 2015 represent the Term B Loan, which is of a principal amount of US$40,000,000 and will become mature three years after drawdown. Its holder could convert the outstanding amount and certain unpaid interest amounts of the Term B Loan into certain number of the Company's ordinary shares at any time prior to its maturity at an initial conversion price of HK$6.84 per share, subject to adjustments under certain terms and conditions of the Term B Loan.

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

	Liability component *US$'000*	**Derivative component** *US$'000*	**Total** *US$'000*
As at 1 January 2015	**197,463**	**592**	**198,055**
Changes in fair value recognised in profit or loss during the period (note 4)	**–**	**(146)**	**(146)**
Repayment during the period	**(160,000)**	**–**	**(160,000)**
Interest paid during the period	**(1,358)**	**–**	**(1,358)**
Interest charged during the period (note 5(a))	**1,175**	**–**	**1,175**
As at 30 June 2015	**37,280**	**446**	**37,726**

16. Deferred income

Deferred income mainly represents government grant received for supporting the Group's expenditures in respect of certain research and development projects and acquisition of land use rights.

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

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

	Liability component *US$'000*	**Equity component** *US$'000*	**Total** *US$'000*
As at 1 January 2015	**91,573**	**10,574**	**102,147**
Interest charged during the period (note 5(a))	**2,342**	**–**	**2,342**
As at 30 June 2015	**93,915**	**10,574**	**104,489**

No conversion of the GIC Convertible Bonds had been occurred up to 30 June 2015.

18. Capital, reserves and dividends

(a) Dividends

(i) No interim dividend attributable to the interim period has been declared.

(ii) No final dividend was proposed in respect of the years ended 31 December 2014 and 2013.

(b) Equity-settled share-based transactions

During the six months ended 30 June 2015, 29,700,000 share options were granted to senior management and employees of the Group under the Company's employee share option scheme (650,000 share options were granted during the six months ended 30 June 2014). Each option entitles the holder to subscribe for one ordinary share in the Company. These share options will vest in instalment during the period from 20 January 2015 to 19 January 2021. The exercise price ranges from HK$3.21 to HK$3.91, being the average closing price of the shares for the five trading days immediately preceding the date of grant.

During the six months ended 30 June 2015, 1,739,340 share options were exercised (six months ended 30 June 2014: 5,094,870) with a weighted average exercise price of US$0.31 (six months ended 30 June 2014: US$0.21) and the total number of ordinary shares increased by 1,739,340 for the six months ended 30 June 2015 (six months ended 30 June 2014: 5,094,870 ordinary shares).

18. Capital, reserves and dividends *(continued)*

(c) Share award scheme

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration. For the six months ended 30 June 2015, the Company granted 4,553,886 shares (six months ended 30 June 2014: 3,247,585) to the Group's executives and purchased 4,567,000 shares (six months ended 30 June 2014: 4,711,000) at cash consideration of US$2,426,000 (six months ended 30 June 2014: US$3,252,000).

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Overview

The Company is a leading medical technology company focusing on innovation, manufacturing and marketing high-end medical devices globally. With a diversified product portfolio now being used in thousands of major hospitals in over 60 countries, the Company maintains world-wide operations in a broad range of business segments including orthopedic, cardiovascular, endovascular, neurovascular, EP, surgical, diabetes care and endocrinal management. The Company is dedicated to becoming a patient-oriented global enterprise that improves and reshapes patients lives through the application of innovative science and technology.

During the six months ended 30 June 2015, the Company, faced with increasing competition in the global medical devices market, continued to commit to improving on operating efficiencies, integrating resources, advancing research and development ("R&D") projects, optimizing sales channels and capturing opportunities in new markets. We realized a remarkable increase of revenue in most of our business segments, especially in the cardiovascular devices, endovascular devices, neurovascular devices, EP devices and orthopedics devices segments in China.

Orthopedics Business

1. Focused on Increasing Operating Efficiencies

During the second year post-acquisition of the OrthoRecon business from Wright Medical Group Inc. (NASDAQ:WMGI) ("Wright Medical"), we continued to focus on growing revenue of MicroPort Orthopedics Inc. ("MicroPort Orthopedics") and controlling manufacturing and operating costs to be in line with revenue. In the six months ended 30 June 2015, our manufacturing team continued to achieve improvements in cost of sales. These improvements were driven primarily from scrap reduction and labor savings. In conjunction with significant improvements in overtime and manufacturing efficiency, these combined initiatives have yielded US$3.7 million of savings as compared to the corresponding period of 2014.

Our production efficiency has improved significantly in the first half of 2015 and many operational improvement initiatives have begun to impact the manufacturing costs positively. As a result of these initiatives, we expect our gross profit margin will start to improve in early 2016.

Improvements in manufacturing forecasting, the optimization of field inventory and the reduction of "slow-moving" inventory has resulted in a gross inventory reduction of US$0.6 million (US$109.9 million as at 31 December 2014 versus US$109.3 million as at 30 June 2015). The inventory reductions did not affect our service levels with no missed surgeries in the first half of 2015.

The focus for the first half of 2015 included cost control on all discretionary spending, as well as fixed expenses such as headcount. The downsizing impacted all areas of the business, including sales, general and administrative, manufacturing and executive management. Operating expenses have decreased 9% as compared to the first half of 2014.

We will continue to look for opportunities to increase operating efficiencies for the rest of 2015 as we move closer to a profitable business.

2. Establishment of Global Instrument Sourcing Center ("GISC")

In January 2015, the Company launched the GISC initiative to manage surgical instrumentation used in the implantation of our products. The GISC undertook the task of centralized purchasing of surgical instrumentation for the business divisions of joints, spine and trauma, as well as logistics and de-consolidation of the instrumentation. The GISC includes six functional departments covering global purchase, collaborative planning, customer orders delivery, projects engineering, quality control and laws and regulations, and logistics and warehousing. As of 30 June 2015, the six major functions of GISC have been launched and have had close cooperation with the corresponding departments of MicroPort Orthopedics. GISC has begun to build strategic cooperative relations with numerous Asia-based orthopedics instrumentation suppliers. Some orthopedics instrumentation and consumptive materials have already been put into mass production for supply of our orthopedics branches in America and Europe. For the six months ended 30 June 2015, GISC has already saved over US$1 million for instrumentation purchase.

The GISC strategy is designed to tightly connect the sales and marketing department, external suppliers, internal production bases and distributors of our orthopedics business into an integrated supply chain. Through the collaborative operation and overall arrangement of information flow, capital flow, work flow and logistics, GISC aims to provide high-end, high performance surgical instrumentations to our surgeons and customers at low cost, so as to realize a win-win situation for the Company and our business partners.

Maintained Our Leading Position in the China Cardiovascular Devices Market

During the six months ended 30 June 2015, we successfully maintained our leading position in the China interventional cardiology market. Although emerging manufacturers have made the competition in the China market extremely fierce, the Company has been able to demonstrate its leadership in this market with our high quality products and over 16 years of experience in the cardiovascular devices market. In total during the reporting period, we had sold approximately 123,500 coronary stents and 11,000 balloon catheters, representing 21% and 34% growth, respectively, as compared to the corresponding period in 2014. Our high-quality product offering, mainly attributed by our Firebird2™ Rapamycin-Eluting CoCr Coronary Stent ("Firebird2"), has enabled us to maintain the leading market position in the China

cardiovascular devices market. During the six months ended 30 June 2015, there were in total 119,000 sets of Firebird2 delivered, representing a 19% growth comparing with that of the same period in 2014. Our third generation internally developed drug eluting stent ("DES") product – Firehawk Rapamycin Target Eluting Stent ("Firehawk") also showed good market performance. As of 30 June 2015, about 4,500 sets of Firehawk were sold in over 110 hospitals in 20 provinces in China, representing 122% growth as compared with that in the corresponding period in 2014. On 23 January 2015, Firehawk received the CE mark approval, which provides the preconditions for the Company to penetrate the European DES market with the sale of Firehawk in the European Economic Area. We believe that this milestone will further propel the Group towards becoming a global medical devices provider.

Launch of China's First Domestic Pacemaker Production Line

On 29 June 2015, our joint venture with Sorin Group, MicroPort Sorin CRM (Shanghai) Co. ("MSC") launched China's first domestic cardiac pacemaker production line with international advanced standards. This milestone is significant because it means that China can now manufacture pacemaker devices on par with international standards and marks the day that the China cardiac pacemaker market will no longer be solely reliant on multi-national device manufacturers. By introducing a world-class pacemaker production line and advanced technologies, MSC aims to develop and produce pacemaker technologies and products with independent intellectual property rights, in order to revolutionize China's pacemaker industry from "Made-in-China" to "Innovated-in-China" with domestic cardiovascular experts and research institutions.

Promoted Products through Medical Education

Medical education plays a key role in the promotion of our products.

For MicroPort Orthopedics, the strategy of stabilizing and growing the US market includes promoting our key product strategies related to our Fast Forward Hip Solutions (SuperPath®) and Patient Preference knee platform built around our Medial Pivot knee offering (Evolution®). We educate and train our surgeon customers on our products through three primary venues: didactic events, cadaver labs, and surgeon-to-surgeon observations. During the first half of 2015, we trained 35 surgeons on SuperPath® and 14 surgeons on Evolution® in the United States.

In China, we train orthopedic surgeons on our orthopedics products by holding exclusive meetings and attending important seminars in the field at the provincial and national level. As of 30 June 2015, we held eight exclusive meetings and attended eight seminars at the provincial or national level in China which in total covered over 2,000 surgeons. Through these events, we detailed the features and advantages of our Advance® and Evolution® medial pivot knee system and SuperPath® Micro-Posterior approach, which helped to promote the above products in the China orthopedic market and improved MicroPort Orthopedics' brand image as well.

For our endovascular business, we also enhanced the training experience of our Aegis™ all-in-one bifurcated stent graft system and its delivering system by increasing the number of our professional sales representatives. In addition, increasingly more cardiac surgeons are proficient with CRONUS™ Stent Graft System in Surgical Operation ("CRONUS™") after training, which ensured the 100% market share of CRONUS™ in thoracic surgery for aortic dissection in China.

For our international interventional cardiology business, we also continued our strong presence in international industry conferences. We participated in CIT, EuroPCR and SOLACI during the reporting period where the Company hosted several scientific symposium presentations with world renowned interventional cardiologists as our keynote speakers for our Firehawk program. For endovascular business, we attended the CICE conference in Sao Paulo, Brazil. For EP business, we participated in the EHRA-EuroPace congress in Milan, Italy and EP LIVE Latinoamerica in Bogota, Colombia. We will continue to participate in the world's leading clinical education conferences for medical devices to promote and commercialize our products.

Progress of New Products

As an R&D-driven enterprise, the Group has always attached great importance on having a steady R&D pipeline of new products to drive revenue growth. During this reporting period, we have achieved great progress in launching several new products for our businesses.

MicroPort Orthopedics successfully launched the EVOLUTION® Revision Adaptive CS Stemmed Femur in June 2015 and the PRESERVE Classic Hip Stem in July 2015. Additionally, the EVOLUTION® Revision Tibia project reached a milestone with the completion of the validation lab by the global design team in June 2015. New projects initiated during the first half of 2015 include a new global acetabular cup system and an anterior approach based total hip instrument system slated for the first quarter of 2016 launch. For the international markets, the PROPHECY Gap Balancing system is expected for Europe in September 2015, while the Japan G26 bipolar hip cup is tentatively planned for the first quarter of 2016.

For our endovascular business, our Castor Branched Aortic Stent Graft System ("Castor") is in-house developed and the world's first branched stent graft system designed for an entirely endovascular treatment of thoracic dissection encroaching the left subclavian artery or the original tear located within 15mm distal to the left subclavian artery. As of 30 June 2015, we have finished the pre-market clinical implantation and collected the 12-month follow-up data representing 11 domestic medical centers in China. The clinical data demonstrated safety and efficacy of Castor for the treatment of thoracic dissections. We plan to submit the application materials to China Food and Drug Administration (the "CFDA") in order to receive registration certificate for product approval.

We also completed the enrollment of a pre-market clinical trial for our first-generation Reewarm18 Peripheral Balloon Dilation Catheter ("Reewarm18") to prove its safety and efficacy for the China market. Reewarm18 is designed to treat peripheral vascular stenoses and occlusions in certain arteries (femoral artery, superficial femoral artery, popliteal artery, infrapopliteal artery). The market launch of Reewarm18 is expected to further enrich our peripheral vascular product line.

For our surgical management business, on 15 May 2015, our VSD occluder was awarded certification by the CFDA. So far, all of the three categories of occluder products (ASD/PDA/VSD) has been approved to be launched in China market, which provided more opportunities for developing market of our occluder products.

Progress in Research and Development Projects

In the first half of 2015, we were able to advance and achieve critical milestones in some of our key R&D projects in the Company.

For our interventional cardiology business, we completed animal studies for our biodegradable DES. The formal report on a six-month animal experiment of biodegradable DES testified the high security of the product, and showed that the degradation of the biodegradable DES in animal experiment was consistent with the degradation profile in vitro experiment. Based on the success of the animal experiments, we have submitted the application to the CFDA to initiate a clinical trial for the product and expect to start the First in Man clinical trial in the second half of 2015. In addition, our application of innovative medical devices for the biodegradable DES was accepted by the CFDA.

As of 30 June 2015, we have completed eight cases in feasibility clinical trials for our Transcatheter Aortic Valve Implantation ("TAVI") device, with good clinical outcomes as evidenced by good clinical follow-up results.

Lastly, we also had several great breakthroughs in some key technologies for our surgical robot project.

Development of International Interventional Business

For the six months ended 30 June 2015, we achieved a growth rate of 8% in international interventional revenue as compared to the corresponding period in the prior year. The primary reason for this growth was led by the growth in the international interventional cardiology business which grew 14% over the corresponding period in 2014. This was primarily due to the launch of the Firehawk DES in several international countries in South America and Asia Pacific countries. International endovascular revenue also grew 8% over the corresponding period in 2014 driven primarily by an increase in Hercules™ T stent graft sales.

In January 2015, Firehawk received CE Mark approval from the European Notified Body. To support the commercial activities in Europe after receiving the CE Mark, we have begun activities during this six months ended 30 June 2015 to conduct and execute our TARGET All-Comers European post-market approval clinical study for Firehawk. This randomized post-market approval clinical trial will consist of approximately 1,600 patients, including approximately 20 investigator sites in 10 to 12 European countries. We expect to enroll the first patient for this European TARGET AC trial by the end of 2015.

As of 30 June 2015, the five international countries that commenced Firehawk sales include Chile, Peru, Dominican Republic, Thailand and the Philippines. In addition, we have obtained local country registration approval for Firehawk DES in three additional international countries (Indonesia, Singapore and Malaysia) during this six months period and will begin to recognize Firehawk sales in these territories imminently.

In total, the Company received 11 new product approvals in various countries including the following: two product approvals in the Philippines (Firehawk, Foxtrot NC); two in Indonesia (Firehawk, D-Pulse); one in Singapore (Firehawk); two in Argentina (Waltz, HD); and four in Peru (Tango, Hercules B, Cronus, Hercules T).

The Company's international business has increased its geographic reach. During the first half of 2015, we continued to leverage our European infrastructure that was acquired with the acquisition of Wright Medical's OrthoRecon business in January 2014. As of 30 June 2015, we has obtained the necessary local registrations and approvals to commercialize the full MicroPort interventional cardiology and EP product portfolios directly in the European market. As of 30 June 2015, MicroPort International currently has 12 distributors actively selling in 14 countries and has entered into agreements with an additional 6 distributors in the following countries or regions: Australia, Russia, Spain, Turkey, Malaysia, and Taiwan.

CERTIFICATION AND BRANDING

During the six months ended 30 June 2015, we filed 77 trademark applications, including 57 applications in the PRC and 20 applications overseas, such as the European Union (the "EU"), U.S., Argentina, India, and Colombia.

FINANCIAL REVIEW

Overview

Faced with increasing competition in the global medical devices market, we have successfully achieved revenue growth of 4.1% for the six months ended 30 June 2015. We continued to provide a diversified product offering with the result of non-cardiovascular sales contributing 65% of the total revenue, and continued our globalization strategy with the result of non-China sales contributing 55% of the total revenue for the six months ended 30 June 2015. Furthermore, we aim to continuously bring our innovations, technologies and services to millions of global patients and become a patient oriented global enterprise capable of leading minimally invasive and other emerging market technologies.

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.

Revenue

USD'000	**Six months ended**		**Percent Change**	
	30 June 2015	30 June 2014	**in US$**	**in local currency**
Cardiovascular devices business	**66,584**	58,602	13.6%	13.3%
Orthopedics devices business	**105,885**	109,204	(3.0%)	2.8%
– United States	**42,890**	40,504	5.9%	5.9%
– Europe	**32,444**	35,202	(7.8%)	2.5%
– Japan	**14,633**	19,688	(25.7%)	(13.2%)
– China	**5,435**	3,313	64.1%	63.8%
– Others	**10,483**	10,497	(0.1%)	2.3%
Endovascular devices business	**7,947**	6,512	22.0%	21.7%
Electrophysiology devices business	**2,615**	2,247	16.4%	16.1%
Neurovascular devices business	**3,644**	3,060	19.1%	18.8%
Surgical devices business	**3,636**	3,150	15.4%	15.1%
Diabetes devices business	**934**	1,020	(8.4%)	(8.7%)
Total	**191,245**	183,795	4.1%	7.4%

The following discussion is based on our seven major business segments. For the six months ended 30 June 2015, we have revenue of approximately US$191.2 million, and a 4.1% increase compared to the revenue of approximately US$183.8 million for the six months ended 30 June 2014, representing growth in local currency terms of 7.4% offset by exchange differences of 3.3% resulted from translation of local currency revenues into US$ which is the Group's reporting currency.

– ***Cardiovascular Devices Segment***

Our cardiovascular devices segment achieved revenue of US$66.6 million for the six months ended 30 June 2015, representing a growth of 13.3% in local currency or a growth of 13.6% in US$ compared to the six months ended 30 June 2014. Such revenue increase was mainly attributable to (i) the increased sales of Firebird2 mainly due to expand current market coverage by recruiting experienced distributors, and (ii) Firehawk entered more hospitals across more Chinese provinces and more overseas countries, with the result of the global revenue achieved 154% growth compared with the six months ended 30 June 2014.

– ***Orthopedics Devices Segment***

Our orthopedic devices segment achieved revenue of US$105.9 million for the six months ended 30 June 2015, representing a growth of 2.8% in local currency or a decrease of 3.0% in US$ compared to the six months ended 30 June 2014. Such operational increase in local currency was mainly attributed to (i) revenue in the United States market successfully turned around and achieved 5.9% growth in local currency compared with the six months ended 30 June 2014. We successfully executed the strategy of stabilizing and growing the US market since the Group acquired the OrthoRecon business in January 2014, including more effective product promotion, medical education and recruitment of experienced competitive sales representatives, etc., (ii) revenue in China market achieved a significant growth of 63.8% in local currency compared with the six months ended 30 June 2014 by fast launching of orthopedics products to more hospitals across provinces, attracting more distributors and gaining greater market recognition from Chinese surgeons, (iii) revenue in European market recorded a modest growth with of 2.5% in local currency compared with the six months ended 30 June 2014, and (iv) partially offset by the fact that revenue in Japan operationally declined 13.2% in local currency due to reduced reimbursement rates at Japanese hospitals, which lead to a drop in unit sales. Significant focus and efforts are being made to help to turn around the Japan business.

– ***Endovascular Devices Segment***

Our endovascular devices segment achieved revenue of US$7.9 million for the six months ended 30 June 2015, representing a growth of 21.7% in local currency or a growth of 22.0% in US$ compared to the six months ended 30 June 2014. 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 continuously high market recognition.

– ***EP Devices Segment***

Our EP devices segment achieved revenue of US$2.6 million for the six months ended 30 June 2015, representing a growth of 16.1% in local currency or a growth of 16.4% in US$ compared to the six months ended 30 June 2014. Such increase was mainly attributable to (i) EP devices being continuously launched to more international markets this year, and (ii) obtaining further affirmation among physicians in China.

– ***Neurovascular Devices Segment***

Our neurovascular devices segment achieved revenue of US$3.6 million for the six months ended 30 June 2015, representing a growth of 18.8% in local currency or a growth of 19.1% in US$ compared to the six months ended 30 June 2014. Such growth was mainly attributable to the organic growth of APOLLO Intracranial Stent System, and WILLIS® Intracranial Stent Graft System obtaining greater market recognition and generating more sales since launch in 2013.

– ***Surgical Management Segment***

Our surgical management segment achieved revenue of US$3.6 million for the six months ended 30 June 2015, representing a growth of 15.1% in local currency or a growth of 15.4% in US$ compared to the six months ended 30 June 2014. The increase was mainly attributed to more sufficient sales promotion activities.

– ***Diabetes Care And Endocrinal Management Segment***

Our diabetes care and endocrinal management segment achieved revenue of US$0.9 million for the six months ended 30 June 2015, representing a decrease of 8.7% in local currency or a decrease of 8.4% in US$ compared to the six months ended 30 June 2014. The decrease was mainly due to the further decreased sales of La Fenice® insulin pump in the market.

Cost of Sales

For the six months ended 30 June 2015, our cost of sales was US$62.9 million, representing a 14% increase as compared to US$55.2 million for the six months ended 30 June 2014. Such increase was primarily attributable to the increased sales volume.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, gross profit kept flat from US$128.6 million for the six months ended 30 June 2014 to US$128.3 million for the six months ended 30 June 2015. Gross profit margin is calculated as gross profit divided by revenue. Our gross profit margin decreased to 67.1% for the six months ended 30 June 2015 as compared to 70.0% for the six months ended 30 June 2014. During the six months period ended 30 June 2015, our gross margin was negatively impacted by an intentional decline in production hours in our Arlington, TN manufacturing facility in the fourth quarter of 2014 and first quarter of 2015. This decline in production hours was the result of an intense focus on inventory control and an improved forecasting process which indicated our existing production forecast needed to be reduced.

Other Revenue and Other Net (Loss)/Gain

We had other revenue of US$2.0 million and other net loss of US$1.0 million for the six months ended 30 June 2015, while other revenue and other net gain were US$3.8 million and US$2.5 million, respectively, for the six months ended 30 June 2014. The decrease in other revenue was caused by the decrease in government grant and interest income, while the decrease of other net gains was primarily attributable to the change in fair value of the embedded financial derivative in relation to the Otsuka Loans.

Research and Development Costs

Our R&D costs increased by 8.3% from US$22.8 million for the six months ended 30 June 2014 to US$24.7 million for the six months ended 30 June 2015. The increase was primarily due to the increased investment in the on-going R&D projects and the newly kicked off R&D projects.

Distribution Costs

Distribution costs decreased by 7.8% from US$64.2 million for the six months ended 30 June 2014 to US$59.1 million for the six months ended 30 June 2015. The decrease was mainly attributed to (i) the reduced rebranding costs of the new MicroPort Orthopedics business in the six months ended 30 June 2015 from the first year after the acquisition in 2014, and (ii) the reduced labor cost of the orthopedics business.

Administrative Expenses

Administrative expenses decreased by 3.3% from US$32.1 million for the six months ended 30 June 2014 to US$31.0 million for the six months ended 30 June 2015. The decrease was mainly attributable to (i) the decreased administrative expenses of the orthopedics business, including reduced IT expenses and travel expenses, etc., partially offset by (ii) the increased depreciation, office expenses and utility expenses due to use of the new headquarter building starting from the second half of 2014.

Other Operating Costs

Other operating costs decreased from US$15.2 million for the six months ended 30 June 2014 to US$1.8 million for the six months ended 30 June 2015. The decrease was primarily due to the absence of acquisition transition related expenses of US$8.2 million and goodwill impairment of US$5.0 million in the six months ended 30 June 2015.

Finance Costs

Finance costs increased from US$5.1 million for the six months ended 30 June 2014 to US$7.9 million for the six months ended 30 June 2015. 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 was kept almost flat from US$5.6 million for the six months ended 30 June 2014 to US$5.5 million for the six months ended 30 June 2015. This is primarily due to profit before tax of the PRC subsidiaries remaining at a similar level. Income tax was primarily recognized from the profitable subsidiaries and no deferred tax assets were recognized for loss-making subsidiaries as of 30 June 2015.

Net Loss

For the six months ended 30 June 2015, the Group recorded a net loss of US$2.6 million, as compared with a net loss of US$9.9 million for the six months ended 30 June 2014. Such decrease was primarily due to the financial performance of both the cardiovascular business and orthopedics business improving for the six months ended 30 June 2015 compared with the six months ended 30 June 2014.

Liquidity and Financial Resources

As of 30 June 2015, we had US$69.3 million of cash and cash equivalent on hand, as compared to US$215.6 million as of 31 December 2014. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

Borrowings and Gearing Ratio

Total borrowings of the Group as of 30 June 2015 was US$305.6 million, with a decrease of US$134.7 million as compared to US$440.3 million as of 31 December 2014. As of 30 June 2015, the gearing ratio (calculated by dividing total loans, bank borrowings and bonds by total equity) of the Group decreased to 90%, as compared to 128% as of 31 December 2014. Such change is primarily due to the partial repayment of the Otsuka loans of US$160 million for the six months ended 30 June 2015.

The maturity profile of our interest-bearing borrowings as of 30 June 2015 are set out in note 15 to the Group's unaudited interim financial report, which has been extracted and presented on page 16 of this announcement.

Working Capital

Our working capital (net current assets) as of 30 June 2015 was US$165.5 million, as compared to US$180.1 million as of 31 December 2014.

Foreign Exchange Exposure

Most of the Group's cash balances are in RMB and US dollar ("US$"), and most of the Group's borrowings are denominated in US$.

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 RMB, Euro and JPY). The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB, Euro, JPY and US$ exposes the Group to currency risk. For the six months ended 30 June 2015, the Group recorded a net exchange loss of US$0.8 million, as compared to exchange gain US$1.4 million for the six months ended 30 June 2014. The Group does not employ any financial instruments for hedging purposes. The management team will continuously assesses the foreign currency exposure.

Capital Expenditure

For the six months ended 30 June 2015, the Group's total capital expenditure was amounted to approximately US$21.1 million, which was used in the (i) construction of building; (ii) purchase of equipment; and (iii) capitalisation of R&D projects expenses.

Capital Commitments

As of 30 June 2015, the Group's capital commitments outstanding and not provided for in the interim financial report amounted to US$81.3 million (31 December 2014: US$76.4 million). These commitments were mainly in respect of the construction development of the Jiaxing and Suzhou plant which are to be financed by borrowing and the working capital of the Group.

Charge on Assets

As of 30 June 2015, the group had pledged (i) the assets of MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., MicroPort Direct LLC; (ii) the real property owned by MicroPort Orthopedics Inc.; (iii) the equity interests in MicroPort Scientific Cooperatief U.A., MicroPort Orthopedics Holdings Inc., MicroPort Orthopedics Inc., MicroPort Direct LLC, MicroPort Shanghai, 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$672.1 million for the purpose of securing the Otsuka Loan with a carrying value of US$37.3 million. The Group had pledged its manufactory building held for own use with a net book value of US$3.6 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$75.9 million and US$4.8 million respectively for the purpose of securing a banking facility with a carrying value of US$17.7 million. The Group had pledged its time deposits of US$45.0 million for the purpose of securing a banking facility with a carrying value of US$40.0 million.

Contingent Liabilities

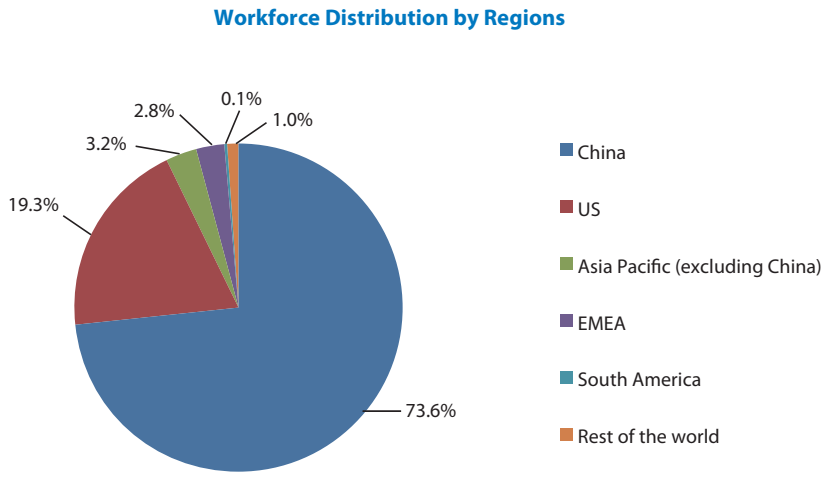
As of 30 June 2015, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

HUMAN RESOURCES

Demographic – global workforce representations

As the Company continues to evolve from our acquisition of the OrthoRecon business in 2014, we currently have a diversified workforce representation throughout the world. This globally diverse workforce enables us to foster a winning platform for talent exchange and leveraging cross-border resources as well as global knowledge sharing. The Company is proud to be one of the pioneers in marching towards the globalization journey for the China medical device industry.

Our management and workforce footprint is well positioned in the key markets which includes U.S. EMEA, China, South America and Asia Pacific (excluding China). Global outreach has become one of the Company's competitive advantages with organisation and local human resources around the globe.



✧ Total Workforce: 2,892, as of 30 June, 2015

Organization Transformation & Optimization – being the best, now

In order to optimize the organisation efficiency and resources alignment for MicroPort Orthopedics business, we conducted and implemented two waves of work force adjustments and streamlining of the organisation in the first quarter of 2015 to focus on and produce a leaner, more effective organisation.

While we focused on streamlining the organisation structure during the reporting period, we are still committed to ensuring we have leading capabilities in R&D, medical education, and sales & marketing to drive revenue and generate the necessary cash for the business turnaround in the U.S. and international operations.

Culture – integrations, collaborations and appreciations

While culture sharing will always play a critical role of any post-merger organisation integration, our story is both compelling and rewarding. Business initiatives are driving the culture of integration, collaboration and appreciation. The GISC initiative is one of the excellent examples to bridging the business and connecting the dots to drive better business performance, with accelerated response times, while demonstrating elements of global collaboration and leverage.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Pursuant to a share award scheme approved by the Board on 26 August 2011, the Company purchased, through the trustee of the share award scheme, a total of 4,567,000 shares of the Company at cash consideration of US$2,426,000 on the Stock Exchange for the six months ended 30 June 2015.

Save and except for the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2015.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the six months ended 30 June 2015, the Directors were not aware of any business or interest of the Directors or any substantial Shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete directly or indirectly with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the period of six months ended 30 June 2015.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 30 June 2015, except for the provision as addressed below, the Company has complied with all the applicable code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separated 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. At the Company's 2015 annual general meeting held on 29 June 2015, Dr. Zhaohua Chang ("Dr. Chang") retired and was re-elected as Director and chairman of the Company. Accordingly, Dr. Chang has re-assumed the responsibility of the executive Director and the chairman of the Company, who is responsible for managing the Board and the Group's business. As the Board considers that Dr. Chang has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently, he has also assumed the position of the chief executive officer of the Company. Nevertheless, the Board will continue to review the effectiveness 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.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend to the Shareholders for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established Audit Committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Norihiro Ashida, Mr. Jonathan H. Chou (chairman) and Mr. Zezhao Hua, respectively.

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The principal duties of the Audit Committee include review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2015 and considered that the results complied with relevant accounting standards, rules and regulations and appropriate disclosure have been duly made.

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2015 containing all the relevant information required by the Listing Rules will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.microport.com.cn) in due course, in accordance with the Listing Rules.

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

Shanghai, The PRC, 31 August 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*