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 2018

FINANCIAL HIGHLIGHTS

	Financial year ended		
	2018	2017	Change
	US$'000	*US$'000*	*%*
Revenue	**669,490**	444,190	50.7
Gross profit	**470,016**	318,397	47.6
Profit for the year	**18,381**	16,951	8.4
Profit attributable to equity shareholders of the Company	**23,913**	18,823	27.0
Earnings per share –			
Basic (in cents)	**1.63**	1.31	24.4
Diluted (in cents)	**1.28**	1.28	0.0

For the year ended 31 December 2018, MicroPort Scientific Corporation (the "Company", or "MicroPort") and its subsidiaries (collectively, the "Group") successfully recorded revenue of US$669.5 million, representing a growth of 48.6% (excluding the foreign exchange impact) or a growth of 50.7% in US$ as compared to 2017. The segments of cardiovascular devices, endovascular devices, neurovascular devices and electrophysiology devices grew vigorously and recorded revenue increases of 22.0%, 39.6%, 36.5% and 34.5%, respectively (excluding the foreign exchange impact). Following completion of the acquisition of the Cardiac Rhythm Management ("CRM") business from LivaNova PLC ("LivaNova"), the financial results of the CRM business have been consolidated into the financial statements of the Group since 30 April 2018. The CRM business recorded revenue of US$158.4 million for the year ended 31 December 2018.

The Group recorded a profit attributable to equity shareholders of US$23.9 million for the year ended 31 December 2018, with an increase of 27.0% as compared with that for the year ended 31 December 2017. Such increase is principally attributable to a significant revenue growth from the cardiovascular devices and endovascular devices segments in the PRC market, and foreign exchange gain from the appreciation of US$ in connection with the RMB denominated borrowings.

* *For identification purpose only*

The board (the "Board") of directors (the "Directors") of the Company hereby announces the consolidated audited annual results of the Group for the year ended 31 December 2018 (the "reporting period") together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	**2018**	2017 *(Note)*
		US$'000	*US$'000*
Revenue	*4*	**669,490**	444,190
Cost of sales		**(199,474)**	(125,793)
Gross profit		**470,016**	318,397
Other net income/(loss)	*5*	**13,796**	(2,540)
Research and development costs		**(104,814)**	(58,150)
Distribution costs		**(217,792)**	(137,766)
Administrative expenses		**(95,742)**	(66,804)
Other operating costs		**(13,410)**	(5,276)
Profit from operations		**52,054**	47,861
Finance costs	*6(a)*	**(21,020)**	(13,489)
Gain on disposal of subsidiaries		**–**	6,531
Gain on deemed disposal of a joint venture	*13*	**4,133**	–
Share of losses of associates		**(2,036)**	(5,493)
Share of losses of joint ventures		**(202)**	(5,042)
Profit before taxation	*6*	**32,929**	30,368
Income tax	*7(a)*	**(14,548)**	(13,417)
Profit for the year		**18,381**	16,951
Attributable to:			
Equity shareholders of the Company		**23,913**	18,823
Non-controlling interests		**(5,532)**	(1,872)
Profit for the year		**18,381**	16,951
Earnings per share	*9*		
Basic (in cents)		**1.63**	1.31
Diluted (in cents)		**1.28**	1.28

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018
(Expressed in United States dollars)

	2018	2017 *(Note)*
	US$'000	*US$'000*
Profit for the year	**18,381**	16,951
Other comprehensive income for the year, net of tax		
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit liabilities	**272**	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**(44,229)**	34,258
Other comprehensive income for the year	**(43,957)**	34,258
Total comprehensive income for the year	**(25,576)**	51,209
Attributable to:		
Equity shareholders of the Company	**(15,640)**	52,107
Non-controlling interests	**(9,936)**	(898)
Total comprehensive income for the year	**(25,576)**	51,209

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2018	31 December 2017 (Note)
		US$'000	*US$'000*
Non-current assets			
Investment properties		**5,451**	5,899
Other property, plant and equipment		**336,263**	282,280
Land use rights		**15,087**	16,224
		356,801	304,403
Intangible assets		**117,489**	83,904
Goodwill		**162,673**	54,458
Interest in associates		**12,291**	13,998
Interest in a joint venture		**5,100**	197
Available-for-sale securities		**–**	5,000
Other financial assets		**11,910**	–
Deferred tax assets		**15,291**	5,584
Prepayments for non-current assets		**6,222**	2,491
Other non-current assets		**31,979**	3,883
		719,756	473,918
Current assets			
Inventories		**175,957**	106,160
Trade and other receivables	*10*	**245,143**	162,242
Pledged deposits and time deposits		**3,537**	760
Cash and cash equivalents		**130,054**	160,229
Derivative financial assets		**–**	314
		554,691	429,705
Current liabilities			
Trade and other payables	*11*	**236,813**	125,085
Contract liabilities		**10,060**	–
Interest-bearing borrowings	*12*	**100,901**	68,819
Convertible bonds		**86,834**	–
Income tax payable		**5,782**	4,989
		440,390	198,893
Net current assets		**114,301**	230,812
Total assets less current liabilities		**834,057**	704,730

	Note	31 December 2018	31 December 2017 (Note)
		US$'000	*US$'000*
Non-current liabilities			
Interest-bearing borrowings	*12*	**137,829**	28,235
Deferred income		**23,905**	24,291
Contract liabilities		**27,766**	–
Convertible bonds		**3,571**	154,421
Other payables	*11*	**93,625**	54,796
Derivative financial liabilities		**10,640**	–
Deferred tax liabilities		**7,775**	3,535
		305,111	265,278
NET ASSETS		**528,946**	439,452
CAPITAL AND RESERVES	*8*		
Share capital		**16**	14
Reserves		**442,780**	401,589
Total equity attributable to equity shareholders of the Company		**442,796**	401,603
Non-controlling interests		**86,150**	37,849
TOTAL EQUITY		**528,946**	439,452

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 3.

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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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. Note 3 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 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a joint venture.

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

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

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

3 Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HK(IFRIC) 22 does not have a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented in this financial report.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and related tax impact at 1 January 2018.

	US$'000
Retained earnings	
Recognition of additional expected credit losses on trade receivables and decrease in retained earnings at 1 January 2018	(4,163)
Non-controlling interests	
Recognition of additional expected credit losses on trade receivables and decrease in non-controlling interests at 1 January 2018	(158)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instruments as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Reclassification**	**Remeasurement**	**HKFRS 9 carrying amount at 1 January 2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets carried at amortised cost				
Cash and cash equivalents	160,229	–	–	160,229
Pledged deposits and time deposits	760	–	–	760
Trade and other receivables	144,309	–	(4,321)	139,988
Debt component of convertible bonds issued by an associate *(note (i))*	5,365	(5,365)	–	–
Amounts due from associates	3,256	–	–	3,256
	313,919	(5,365)	(4,321)	304,233
Financial assets carried at FVPL				
Convertible bonds issued by an associate *(note (i))*	314	5,365	–	5,679
Equity securities not held for trading *(note (ii))*	–	5,000	–	5,000
	314	10,365	–	10,679
Financial assets classified as available-for-sale under HKAS 39 *(note (ii))*	5,000	(5,000)	–	–

Notes:

(i) Under HKAS 39, conversion option embedded in the convertible bonds issued by an associate was separated from the host and recognised as a derivative financial asset, of which fair value was remeasured at the end of each reporting period. The host contract is subsequently carried at amortised cost. Under HKFRS 9, the hybrid instrument as a whole is assessed for classification and is carried at FVPL.

(ii) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at fair value through other comprehensive income by the Group. At 1 January 2018, none of the investments has been designated at FVOCI (non-recycling).

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts. The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged deposits, time deposits, trade and other receivables and amounts due from associates), and financial guarantee contracts issued.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	US$'000
Loss allowance at 31 December 2017 under HKAS 39	
– trade receivables	6,099
– other receivables	42
Additional credit loss recognised at 1 January 2018 on trade receivables	4,321
Loss allowance at 1 January 2018 under HKFRS 9	10,462

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and determines that there is no significant impact of transition to HKFRS 15 on retained earnings and related tax as at 1 January 2018. Therefore, no adjustment to the opening balance of equity at 1 January 2018 was made. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Under HKFRS 15, a contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognised the related revenue. To reflect these changes in presentation, "Advances received from customers" amounting to US$2,779,000, which were previously included in trade and other payables are now included under contract liabilities. Comparative information is not restated.

4 Revenue and segment reporting

(a) Revenue

The Group derives revenue principally from the sales of medical devices through appointed distributors and direct force sales, as well as rendering of post-sales services primarily for CRM business acquired in 2018. Further details regarding the Group's principle activities are disclosed in note 4(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018	2017
		(Note)
	US$'000	*US$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of medical devices	**661,162**	443,738
Revenue from post-sales services	**7,868**	–
	669,030	443,738
Revenue from other sources		
Gross rentals from investment properties	**460**	452
	669,490	444,190

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 4(b)(i) and 4(b)(iii) respectively.

The Group's customer base is diversified. For the years ended 31 December 2018 and 2017, there was no customer with whom transactions have exceeded 10% of the Group's revenue.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is US$35,463,000. This amount represents revenue expected to be recognised in the future from rendering post-sales services. The Group will recognise the expected revenue in future when or as the service is rendered, which is expected to occur over the estimated product lives of different implanted devices.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of medical devices that had an original expected duration of one year or less.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified eight reportable segments (2017: seven). On 30 April 2018, the Group completed the acquisition of the CRM business from LivaNova PLC ("LivaNova") (note 13). The Group presented the CRM business segment as a reportable segment since 2018 which previously was included in the cardiovascular devices business segment. In addition, certain investments in debt and equity securities were excluded from reportable segment net profit/(loss) and segment assets in 2018 due to the change of the assessment by the Group's most senior executive management. The comparative information has also been re-presented to reflect such change. No operating segments have been aggregated to form the following reportable segments.

- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.
- Cardiovascular devices business: sales, manufacture, research and development of cardiovascular devices.
- CRM business: sales, manufacture, research and development of cardiac rhythm management devices.
- 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 devices business: sales, manufacture, research and development of surgical devices.
- Diabetes and endocrinal devices business: sales, manufacture, research and development of devices related to diabetes mellitus.

(i) Segment results, assets and liabilities

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

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

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

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	2018								
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	CRM business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical devices business *US$'000*	Diabetes and endocrinal devices business *US$'000*	Total *US$'000*
Disaggregated by timing of revenue recognition									
Point in time – sales of medical devices	236,279	202,487	150,508	34,975	12,691	18,297	5,925	–	661,162
Over time – post-sales services	–	–	7,868	–	–	–	–	–	7,868
Over time – rental income	–	330	–	–	–	130	–	–	460
	236,279	202,817	158,376	34,975	12,691	18,427	5,925	–	669,490
Reportable segment net (loss)/profit	(13,081)	70,959	(24,205)	13,521	57	4,100	(5,708)	(687)	44,956
Interest income from bank deposits	56	539	16	28	16	7	19	–	681
Interest expense	2,684	3	1,935	–	225	36	–	–	4,883
Depreciation and amortisation for the year	21,470	12,342	4,953	1,245	1,099	1,037	1,089	–	43,235
Income tax	1,132	11,039	(819)	2,898	–	232	63	–	14,545
Increase/(decrease) of inventory provision	2,411	554	3,565	260	(25)	152	213	–	7,130
Impairment losses of									
– Property, plant and equipment	–	900	–	–	–	–	–	–	900
– Intangible assets	754	–	–	–	–	–	1,685	–	2,439
– Trade and other receivables	325	800	–	10	(21)	–	371	–	1,485
Reportable segment assets	426,403	495,386	334,045	39,170	18,992	27,854	28,551	4,857	1,375,258
Additions to non-current segment assets during the year	43,614	62,044	7,300	3,751	1,250	4,902	523	–	123,384
Reportable segment liabilities	241,423	134,755	138,310	7,985	10,438	8,068	18,921	–	559,900

	2017 (Re-presented)								
	Orthopedics devices business *US$'000*	Cardiovascular devices business *US$'000*	CRM business *US$'000*	Endovascular devices business *US$'000*	Electrophysiology devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical devices business *US$'000*	Diabetes and endocrinal devices business *US$'000*	Total *US$'000*
Disaggregated by timing of revenue recognition									
Point in time – sales of medical devices	224,607	162,975	2,348	24,793	9,417	13,385	5,498	715	443,738
Over time – rental income	–	324	–	–	–	128	–	–	452
	224,607	163,299	2,348	24,793	9,417	13,513	5,498	715	444,190
Reportable segment net (loss)/profit	(21,341)	70,528	(4,993)	10,018	(2,018)	2,980	(2,820)	(1,121)	51,233
Interest income from bank deposits	8	1,041	–	22	8	5	40	–	1,124
Interest expense	1,170	327	–	–	176	–	–	–	1,673
Depreciation and amortisation for the year	21,180	9,563	–	785	997	716	1,282	45	34,568
Income tax	2,012	10,226	–	1,673	–	270	(64)	–	14,117
Increase of inventory provision	1,962	525	–	267	79	227	387	–	3,447
Impairment losses of – Intangible assets	–	–	–	–	–	–	152	–	152
Reportable segment assets	407,087	433,375	760	34,408	19,692	20,662	28,731	5,869	950,584
Additions to non-current segment assets during the year	29,197	33,191	–	4,275	965	2,737	527	2,967	73,859
Reportable segment liabilities	154,689	113,993	1,123	5,402	11,069	3,146	17,453	–	306,875

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

	2018	2017
	US$'000	*US$'000*
Profit or loss		
Reportable segment net profit	**44,956**	51,233
Share awards scheme	**(5,317)**	(4,451)
Other equity-settled share-based payment expenses	**(3,764)**	(4,285)
Unallocated exchange gain/(loss)	**9,467**	(6,246)
Gain on disposal of subsidiaries	**–**	6,531
Gain on deemed disposal of a joint venture	**4,133**	–
Unallocated expenses, net	**(31,094)**	(25,831)
Consolidated profit for the year	**18,381**	16,951
Assets		
Reportable segment assets	**1,375,258**	950,584
Elimination of inter-segment receivables	**(133,841)**	(96,013)
	1,241,417	854,571
Unallocated corporate assets:		
– Cash and cash equivalents	**13,364**	38,420
– Other receivables	**11,900**	–
– Investments in debt and equity securities	**6,804**	10,443
– Others	**962**	189
	33,030	49,052
Consolidated total assets	**1,274,447**	903,623
Liabilities		
Reportable segment liabilities	**559,900**	306,875
Elimination of inter-segment payables	**(133,841)**	(96,013)
Deferred tax liabilities	**2,306**	1,969
Convertible bonds	**90,405**	154,421
Derivative financial liabilities *(note 13)*	**10,640**	–
Interest-bearing borrowings	**138,637**	39,719
Other payables *(note 11)*	**73,449**	52,275
Unallocated corporate liabilities	**4,005**	4,925
Consolidated total liabilities	**745,501**	464,171

(iii) Geographic information

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

Revenue from external customers

	2018	2017
	US$'000	*US$'000*
The PRC (country of domicile)	**281,871**	218,740
North America	**109,536**	101,924
Europe	**192,652**	61,114
Asia (excluding the PRC)	**65,615**	43,109
South America	**11,648**	13,891
Others	**8,168**	5,412
	387,619	225,450
	669,490	444,190

The analysis above includes property rental income from external customers in the PRC of US$460,000 (2017: US$452,000).

Specified non-current assets

	2018	2017
	US$'000	*US$'000*
The PRC (country of domicile)	**375,757**	311,950
North America	**120,705**	121,528
Europe	**146,756**	9,468
Asia (excluding the PRC)	**5,477**	5,192
South America	**5,659**	201
	278,597	136,389
	654,354	448,339

5 Other net income/(loss)

	2018	2017
	US$'000	*US$'000*
Government grants *(Note)*	**10,085**	8,159
Interest income on bank deposits	**1,018**	1,171
Net loss on disposal of property, plant and equipment	**(727)**	(715)
Net foreign exchange gain/(loss)	**9,602**	(11,006)
Net realised and unrealised losses on financial assets and liabilities carried at FVPL	**(6,611)**	(3,162)
Impairment losses of the convertible bonds	**–**	(1,604)
Insurance compensation in respect of damage of property, plant and equipment	**–**	3,678
Others	**429**	939
	13,796	(2,540)

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

Government grants recognised in "other net income/(loss)" included unconditional grants of US$7,620,000 (2017: US$2,552,000) to compensate the Group for research expenses already incurred and conditional grants of US$2,465,000 (2017: US$5,602,000) transferred from deferred income as the conditions attaching to the grant were complied with during the year ended 31 December 2018.

6 Profit before taxation

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

	2018	2017
	US$'000	*US$'000*
(a) Finance costs		
Interest on the convertible bonds	**8,985**	9,806
Interest on other interest-bearing borrowings	**9,593**	3,519
Others	**1,208**	275
Total interest expense on financial liabilities not at fair value through profit or loss	**19,786**	13,600
Interest accrued on advance payments from customers	**1,676**	–
Less: Interest expense capitalised into properties under development*	**(442)**	(111)
	21,020	13,489

* During 2018, the borrowing costs have been capitalised at a rate of 4.7% (2017: 4.7%) per annum.

	2018	2017
	US$'000	*US$'000*

(b) Staff costs

Contributions to defined contribution retirement plans	**15,541**	10,993
Expenses recognised in respect of defined benefit retirement plans	**245**	–
Equity-settled share-based payment expenses	**9,890**	8,736
Cash-settled share-based payment expenses	**3,917**	4,184
Salaries, wages and other benefits	**222,986**	128,760
	252,579	152,673

(i) Defined contribution retirement plans

The PRC

As stipulated by the labour regulations of the PRC, the Group also participates in various defined contribution retirement plans organised by municipal and provisional governments for its employees. The Group is required to make contributions to the retirement plans at approximately 20% of the eligible employees' salaries for the year ended 31 December 2018.

The United States (the "US")

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.

(ii) Defined benefit retirement plans

The Group makes contribution to several defined benefit retirement plans in Italy, France, Germany and Japan. In Italy and France, the Group maintains a severance defined benefit plan that obligates the employer to pay a severance payment in case of resignation, dismissal or retirement. In other jurisdictions, non-contributory defined benefit plans are designated to provide a guaranteed minimum retirement benefits to eligible employees.

The defined benefit plans expose the Group to various demographic and economic risks such as longevity risk, investment risks, currency and interest risk and inflation risk. When calculating the defined benefit liabilities, the Group estimated the key assumptions by reference to actuarial valuations. The Group recorded the present value of funded obligation of US$8,806,000 as at 31 December 2018, with actuarial gain of US$272,000 being recorded in other comprehensive income for the year ended 31 December 2018.

	2018	2017 (Note)
	US$'000	*US$'000*
(c) Other items		
Amortisation[#]		
– land use rights	**372**	367
– intangible assets	**8,178**	5,908
	8,550	6,275
Depreciation of investment properties and other property, plant and equipment[#]	**34,875**	29,230
Less: Amounts capitalised as development costs	**(1,049)**	(937)
	33,826	28,293
Impairment losses		
– trade and other receivables	**1,485**	2,286
– property, plant and equipment	**900**	–
– intangible assets	**2,437**	152
– convertible bonds	**–**	1,604
	4,822	4,042
Operating lease charges: minimum lease payment	**12,936**	6,510
Rental income from investment properties	**460**	452
Cost of inventories[#]	**211,148**	133,596
Research and development costs (other than amortisation costs of intangible assets)	**123,886**	72,988
Less: Costs capitalised into intangible assets	**(22,076)**	(17,535)
	101,810	55,453
Auditors' remuneration		
– audit services	**1,801**	1,076
– non-audit services	**3,704**	727
	5,505	1,803

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3

[#] Cost of inventories includes US$72,471,000 (2017: US$41,371,000) 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.

7 Income tax in the consolidated statement of profit or loss

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

	2018	2017
	US$'000	*US$'000*
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**14,957**	12,595
Over-provision in respect of prior years	**(326)**	(107)
	14,631	12,488
Current tax – other jurisdictions		
Provision for the year	**2,244**	1,613
Over-provision in respect of prior years	**(84)**	(44)
	2,160	1,569
	16,791	14,057
Deferred tax		
Origination and reversal of temporary differences	**(2,243)**	(640)
	14,548	13,417

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2017: 16.5%) of the estimated assessable profits.

(iii) PRC CIT

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

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%.

(iv) US corporate tax

The US Tax Cuts and Jobs Act ("Tax Act") was enacted on 22 December 2017 and introduces significant changes to the US corporate tax law. Effective in 2018, the Tax Act reduces the federal corporate tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion tax, respectively. In addition, the new law revised the net operating loss carry forward period from 20 years to indefinite. The mandatory repatriation tax (one-time transition tax) was not applicable to the Group as the US does not have any controlled foreign subsidiaries.

(v) France tax

The Company's subsidiaries incorporated in France applied the French progressive taxation schemes, with first EUR500,000 income being taxed at 28% and the incremental increases in income taxed at higher tax rates at 33.33% and 31%, respectively for 2018 and 2019. From year 2020 to 2022, the applicable French tax rates will be the flat statutory tax rates of 28%, 26.5% and 25%, respectively.

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

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

	2018	2017
	US$'000	*US$'000*
Profit before taxation	**32,929**	30,368
Notional tax on profit before taxation, calculated at the rates applicable to profit in the countries concerned	**16,267**	13,686
Effect of the PRC preferential tax rate	**(8,965)**	(7,556)
Effect of other non-deductible expenses	**5,562**	3,826
Effect of additional deduction on research and development expenses	**(3,646)**	(2,232)
Effect of tax losses not recognised	**7,676**	12,728
Effect of non-taxable revenue	**(962)**	–
Effect of deductible loss arising from intra-group restructuring	**(656)**	(5,783)
Withholding tax on profit distributions	**806**	162
Over-provision in respect of prior years	**(410)**	(151)
Others	**(1,124)**	(1,263)
Actual tax expenses	**14,548**	13,417

8 Capital, reserves and dividends

(a) Dividends

At the meeting of the Board of Directors held on 27 March 2018, the Board of Directors recommended the payment of a final dividend of HK2.5 cents (2017: HK1.9 cents) per ordinary share of the Company for the year ended 31 December 2017 (the "2017 Final Dividend") by way of cash, with an option to elect to receive new fully paid shares of the Company in lieu of cash. The 2017 Final Dividend totaling US$4,657,000 was approved at the annual general meeting of the Company held on 14 May 2018 and is payable to shareholders of the Company whose names appeared on the register of members of the Company on 23 May 2018.

The Company paid cash dividends to shareholders of the Company totalling US$3,582,000 (2017: US$2,295,000) and issued 843,571 ordinary shares (2017: 1,596,103 ordinary shares) of the Company at an issue price of HK$9.994 per share (2017 HK$5.958) as the 2017 Final Dividend. Accordingly, US$1,075,000 (2017: US$1,215,000) was credited to share premium.

After the period end, the directors of the Company proposed a final dividend for the year ended 31 December 2018 of HK2.9 cents per ordinary share, which has not been recognised as a liability at 31 December 2018.

(b) Share capital

(i) Ordinary shares

	2018		2017	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***US$'000***	*'000*	*US$'000*
Authorised:				
Ordinary shares of US$0.00001 each	**5,000,000**	**50**	5,000,000	50
Ordinary shares, issued and fully paid:				
At 1 January	**1,457,063**	**14**	1,439,481	14
Shares issued under share option plans	**7,200**	**1**	15,986	–
Shares issued in lieu of cash dividends (note 8(a))	**844**	**–**	1,596	–
Shares issued in respect of conversion of convertible notes	**137,219**	**1**	–	–
At 31 December	**1,602,326**	**16**	1,457,063	14

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

(ii) Purchase of own shares

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

Month/year	No. of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate considerations paid
		US$	*US$*	*US$'000*
January 2018	802,000	1.03	0.97	795
October 2018	98,000	1.15	1.15	113
November 2018	1,947,000	1.15	1.07	2,147
December 2018	3,344,000	1.09	0.90	3,182
	6,191,000			6,237

Repurchased shares held at the end of reporting period are classified as treasury shares and are presented as a decrease in the capital reserve.

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$23,913,000 (2017: US$18,823,000) and the weighted average number of ordinary shares of 1,468,985,000 shares (2017: 1,433,678,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2018	2017
	'000	*'000*
Issued ordinary shares at 1 January	**1,457,063**	1,439,481
Effect of issue of shares in lieu of cash dividends	**319**	603
Effect of share options exercised	**5,158**	5,818
Effect of shares under share award scheme	**(13,260)**	(12,224)
Effect of conversion of convertible notes	**19,705**	–
Weighted average number of ordinary shares at 31 December	**1,468,985**	1,433,678

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$19,956,000 (2017: US$18,823,000) and the weighted average number of ordinary shares of 1,560,667,000 shares (2017: 1,474,699,000 shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme and a put option that may be settled in ordinary shares of the Company or cash at the Company's option (note 13), calculated as follows.

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2018	2017
	US$'000	*US$'000*
Profit attributable to ordinary equity shareholders	**23,913**	18,823
Effect of deemed exercise of put option in respect of share repurchase obligation	**(3,957)**	–
Profit attributable to ordinary equity shareholders (diluted)	**19,956**	18,823

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

	2018	2017
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,468,985**	1,433,678
Effect of deemed exercise of put option in respect of share repurchase obligation	**51,672**	–
Effect of deemed issue of shares under the Company's share option scheme	**40,010**	41,021
Weighted average number of ordinary shares (diluted) at 31 December	**1,560,667**	1,474,699

The calculation of diluted earnings per share amount for the year ended 31 December 2018 has not included the potential effect of the deemed conversion of the convertible notes into ordinary shares during the year, as it has an anti-dilutive effect on the basic earnings per share amount for the year.

10 Trade and other receivables

	31 December 2018	1 January 2018 (Note 1)	31 December 2017
	US$'000	*US$'000*	*US$'000*
Trade debtors due from:			
– third party customers	**189,140**	126,401	126,401
– related parties	**1,133**	837	837
	190,273	127,238	127,238
Less: Allowance for doubtful debts	**(10,607)**	(10,420)	(6,099)
	179,666	116,818	121,139
Amounts due from a joint venture	**–**	6,897	6,897
Amounts due from the holders of non-controlling interests in relation to the capital contributions	**5,744**	9,642	9,642
Advances to a third party *(Note 2)*	**11,900**	–	–
Other debtors	**25,707**	12,849	12,849
Income tax recoverable	**9,911**	–	–
Deposits and prepayments	**12,215**	11,715	11,715
	245,143	157,921	162,242

Note 1: Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade debtors. See note 3

Note 2: The Company made advances of US$11,900,000 to a third party, which also made investments into two entities in which the Group has equity interests. The receivables are expected to be settled within one year from the date of the advances. Subsequent to 31 December 2018, settlement of US$8,050,000 has been received by the Company.

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 based on the invoice date (or date of revenue recognition, if earlier) and net of allowance, is as follows:

	2018	2017
	US$'000	*US$'000*
Within 1 month	**78,445**	42,899
1 to 3 months	**67,487**	52,694
3 to 12 months	**22,480**	23,167
More than 12 months	**11,254**	2,379
	179,666	121,139

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

(b) Impairment of trade receivables

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018	2017
	US$'000	*US$'000*
Balance at 31 December under HKAS 39	**6,099**	5,385
Impact on initial application of HKFRS 9 (note 3)	**4,321**	–
Adjusted balance at 1 January	**10,420**	5,385
Amounts written off during the year	**(210)**	(2,305)
Impairment losses recognised during the year	**1,389**	2,255
Exchange adjustments	**(992)**	764
Balance at 31 December	**10,607**	6,099

11 Trade and other payables

	31 December 2018	1 January 2018 *(Note 1)*	31 December 2017
	US$'000	*US$'000*	*US$'000*
Current			
Trade payables due to			
– third party suppliers	**105,016**	51,142	51,142
– a joint venture	**–**	1,009	1,009
	105,016	52,151	52,151
Advances received from customers	**–**	–	2,779
Dividends payable to ordinary shareholders	**89**	89	89
Advances received in relation to a proposed disposal of partial interests in a subsidiary	**6,358**	–	–
Other payables and accrued charges	**125,350**	70,066	70,066
	236,813	122,306	125,085
Non-current			
Share repurchase obligations *(Note 2)*	**73,449**	52,275	52,275
Defined benefit retirement obligation *(note 6(b)(ii))*	**8,806**	–	–
Provision for financial guarantees issued	**2,106**	–	–
Other payables	**9,264**	2,521	2,521
	93,625	54,796	54,796

Note 1: As a result of the adoption of HKFRS 15, advances received from customers are included in contract liabilities. See note 3.

Note 2: In 2017, the Group wrote put options (the "CardioFlow Series B Put Options") to certain third party investors (the "CardioFlow Series B Investors"), being the holders of non-controlling interests of Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow Shanghai"), in connection with the deemed disposal of partial equity interests in MP CardioFlow Shanghai. The CardioFlow Series B Put Options give the investors the rights to require the Group to re-acquire the redeemable shares held by them under certain conditions which are not under the control of the Group, at the consideration specified under the agreements.

The Group recorded the present value of the redemption price of the CardioFlow Series B Put Option as a payable with the corresponding value decrease in capital reserve. The CardioFlow Series B Put Option are stated at amortised cost. During the year ended 31 December 2018, the change in amortised cost of such share repurchase obligations of US$5,129,000 (2017: US$1,132,000) has been recognised directly in equity.

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

As of the end of the reporting period, the ageing analysis of the trade payables based on invoice date is as follows:

	2018	2017
	US$'000	*US$'000*
Within 1 month	**43,514**	21,881
Over 1 month but within 3 months	**28,750**	10,714
Over 3 months but within 6 months	**757**	479
Over 6 months but within 1 year	**1,098**	273
Over 1 year	**30,897**	18,804
	105,016	52,151

12 Interest-bearing borrowings

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

	2018	2017
	US$'000	*US$'000*
Within 1 year or on demand	**100,901**	68,819
After 1 year but within 2 years	**8,810**	25,827
After 2 years but within 5 years	**129,019**	2,408
	137,829	28,235
	238,730	97,054

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

	2018	2017
	US$'000	*US$'000*
Bank loans		
– secured	**118,080**	46,871
– unsecured	**120,650**	50,000
	238,730	96,871
Secured other borrowings	**–**	183
	238,730	97,054

At 31 December 2018, the bank facilities drawn down by the Group of US$29,295,000 (31 December 2017: US$46,871,000) were secured by pledged deposits, land use rights and buildings held for own use with net book value of US$2,841,000, US$4,172,000 and US$55,288,000, respectively (31 December 2017: nil, US$8,725,000 and US$110,750,000, respectively).

At 31 December 2018, a bank loan of US$88,785,000 borrowed by the Company in connection with the acquisition of the CRM business was secured by the equity interests of the Company's four subsidiaries, namely Shanghai MicroPort Medical (Group) Co. Ltd. ("MP Shanghai"), MicroPort International Corp. Limited, MicroPort International Corp. and MicroPort Cardiac Rhythm B.V. and guaranteed by MP Shanghai. The bank loan bears an interest rate of LIBOR plus 3.5% per annum and shall be repaid by instalments within five years since 30 April 2018.

13 Acquisition of subsidiaries

Reference is made to the announcements dated 20 November 2017, 20 February 2018, 8 March 2018, 19 April 2018, 30 April 2018, 27 February 2019 and the circular dated 3 April 2018 of the Company.

On 8 March 2018, the Company, MicroPort Cardiac Rhythm B.V. (the "Purchaser", a subsidiary of the Company incorporated in the Netherlands) and LivaNova entered into a stock and asset purchase agreement (the "Stock and Asset Purchase Agreement"), pursuant to which, the Purchaser conditionally agreed to acquire, and LivaNova conditionally agreed to sell, the CRM business of LivaNova (the "CRM Acquisition") for an initial consideration of US$190 million, subject to working capital and other customary adjustments (collectively referred to as the "Adjustment Amount"). The CRM business primarily operates in various countries in Europe, as well as in the US, Canada and parts of Asia. The Group believes the CRM Acquisition is in line with its development strategies and will bring long-term and strategic benefits to the Group.

On 30 April 2018, the Company, the Purchaser and LivaNova entered into a side letter to the Stock and Asset Purchase Agreement (the "Side Letter"), pursuant to which, the closing of the CRM Acquisition for certain countries specified in the Side Letter (the "Initial Closing Countries") was completed on 30 April 2018 (the "Initial Closing"), while for certain other countries specified in the Side Letter (the "Deferred Closing Countries"), closing took place through deferred closings (the "Deferred Closings") in the six months following the Initial Closing. From the date of the Initial Closing until the applicable Deferred Closings, LivaNova conducted the CRM business in the applicable Deferred Closing Countries at the direction of the Group and the CRM business in Deferred Closing Countries was held for the Group's benefit and account. Pursuant to the Stock and Asset Purchase Agreement together with the Side Letter, the Board of Directors of the Company determined that the Group completed the CRM Acquisition on 30 April 2018 and has controlled the CRM business since then. The Deferred Closings were all completed as at 31 December 2018.

On the date of the Initial Closing, the Group paid US$195,800,000 in cash to LivaNova in respect of the purchase price consideration based on an estimated Adjustment Amount provided by LivaNova. Under the terms of the Stock and Asset Purchase Agreement, the purchase price consideration is subject to an adjustment after the Initial Closing corresponding to the difference between the Adjustment Amount (as finally determined in accordance with the terms of the Stock and Asset Purchase Agreement) and the estimated Adjustment Amount initially provided by LivaNova. Based on the Group's calculation of the Adjustment Amount, Directors of the Group are demanding that LivaNova refund part of the consideration already paid. As at the date of this report, the Group and LivaNova are in the process of finalising the Adjustment Amount pursuant to the Stock and Asset Purchase Agreement.

The CRM Acquisition was financed by way of (i) a new bank loan of US$88,785,000 (note 12); and (ii) the contribution totalling US$50,000,000 to the Purchaser by Sino Rhythm Limited ("SRL"), a third party investor.

Pursuant to the contribution and shareholders' agreement entered into between the Purchaser, SRL and MicroPort International Corp. Limited ("MP HK", a subsidiary of the Company), in February 2018, SRL contributed capital of US$50,000,000 to the Purchaser for the CRM Acquisition and therefore held 25% equity interests in the Purchaser. In addition, in the event that an initial public offering or a trade sale of the CRM business has not occurred on or prior to the fifth anniversary of the closing of the CRM Acquisition, SRL has the right to require the Company to purchase any or all of the equity interests in the Purchaser held by SRL at a price equal to the original investment plus an annual internal return of 8% (the "SRL Put Option"). Upon receipt of SRL's notice of exercising the SRL Put Option, the Company shall have the right to decide whether to pay its consideration in cash or by issuing to SRL new shares of the Company, or with a combination of cash and shares of the Company. The SRL Put Option is considered to be a derivative financial liability which was measured at fair value on initial recognition. As at 31 December 2018, the fair value of the SRL Put Option was US$10,640,000. Accordingly, the change in fair value was charged to the consolidated profit or loss during the year ended 31 December 2018.

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

	Provisional fair value of net identifiable assets acquired at the acquisition date *US$'000*
Cash and cash equivalents	11,775
Property, plant and equipment	22,787
Intangible assets	23,610
Trade and other receivables	86,770
Inventories	66,317
Other non-current assets	1,191
Deferred tax assets	23,749
Interest-bearing borrowings	(10,369)
Trade and other payables	(63,565)
Contract liabilities	(35,111)
Income tax payables	(4,765)
Other non-current liabilities	(16,963)
Deferred tax liabilities	(20,217)
Net identifiable assets	85,209
Goodwill	114,724
Fair value of considerations	199,933
Considerations including:	
Fair value of the existing equity interests in a joint venture (Note)	4,133
Cash considerations paid in 2018	195,800
	199,933
Cash considerations paid in 2018	(195,800)
Cash and cash equivalents acquired on 30 April 2018	11,775
Net cash outflow arising from the acquisition in 2018	(184,025)

Note: MicroPort Sorin CRM was previously jointly controlled by the Group and LivaNova. After the completion of the CRM Acquisition, MicroPort Sorin CRM became a subsidiary of the Company with its assets and liabilities consolidated into the Company's consolidated financial statements. Accordingly, the acquisition-date fair value of the existing equity interests in MicroPort Sorin CRM owned by the Group forms part of the consideration in determining the amount of goodwill. A gain on deemed disposal of interests in a joint venture of US$4,133,000 was recognised in the consolidated profit or loss for the year ended 31 December 2018, which was determined as the excess of the fair value of the existing equity interests in MicroPort Sorin CRM of US$4,133,000, over the nil carrying value of investment in the joint venture.

The fair values are determined provisionally based on information available up to the date of this report. The Directors are in the process of finalising the valuation of the net identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

BUSINESS OVERVIEW

Overview

In 2018, with the further increase in the demand for public medical devices and the further improvement of relevant national policies, the medical device industry has continued to maintain a rapid and healthy development momentum under favourable policies. In 2018, adjustments were made to relevant institutions under the State Council, including the establishment of the National Health Commission (國家衛生健康委員會) and the Bureau of National Health Care (國家醫療保障局) and name change of the former China Food and Drug Administration ("CFDA") to the National Medical Products Administration ("NMPA") under the supervision of the State Administration of Market Regulation. The newly revised "Special Procedures for Examination and Approval of Innovative Medical Devices"(《創新醫療器械特別審查程序》) was issued by NMPA in November 2018, which improved the applicable situations, refined the application process, enhanced the effectiveness of the innovation approval, and play an active role in encouraging the innovation and development of the medical device industry. In June 2018, in order to deepen the reform of the examination and approval system and encourage innovations in medical devices, the Ministry of Justice issued the "Revision of Regulation on the Supervision and Administration of Medical Devices (the Draft for Review) (《醫療器械監督管理條例修正案(草案送審稿)》) (the "Regulation"). Such revision improved the Marketing Authorization Holder system, reformed the clinical trial management system, optimized the approval procedures and enhanced the post-listing regulatory requirements, representing that China's regulatory requirements for medical devices have entered a new stage. In addition, the General Office of the State Council issued the "Key Tasks for Deepening Reform on Pharmaceutical and Healthcare System for the Second Half of 2018" (《深化醫藥衛生體制改革2018年下半年重點工作任務》), and proposed to facilitate the domestic manufacturing of medical devices and push forward the application and promotion of innovative products. The introduction of a series of national reform policies has far-reaching and positive significance on encouraging medical device innovation, accelerating the domestic manufacturing process and regulating industry order. From international perspective, the global medical device market maintains high vitality, and medical device safety is becoming the focus of public concern. Governments have revised relevant regulations to strengthen supervision and improve the registration and approval system.

As at 31 December 2018, the Group had eight business segments, namely, orthopedics devices, cardiovascular devices, CRM, endovascular devices, electrophysiology ("EP") devices, neurovascular devices, surgical devices as well as diabetes and endocrinal devices, covering over 300 varieties of medical devices.

In 2018, the Group formulated and improved its corporate strategy, promoted research and development ("R&D") projects in an orderly manner and further expanded the domestic sales market to benefit more patients, as well as actively deployed overseas markets to implement its international strategic goals. On 30 April 2018, the Group completed the acquisition of the CRM business from LivaNova. Such newly acquired business not only contributes to the Group's revenue, but also helps the Group to enhancing its competitiveness and attaining sustainable development in the long run. For the year ended 31 December 2018, the Group recorded revenue of US$669.5 million, representing an increase of 50.7% from 2017, and excluding the foreign exchange impact, the increase was 48.6%, and net profit amounted to US$18.4 million (profit attributable to equity owners of the Company: US$23.9 million).

For the year ended 31 December 2018, the Group derived 35.3% of its revenue from the orthopedics devices business, 30.3% from the cardiovascular devices business, 23.7% from the CRM business, 5.2% from the endovascular devices business, 1.9% from the EP devices, business 2.7% from the neurovascular devices and 0.9% from the surgical devices business. In 2018, the Group's various businesses, including cardiovascular, endovascular and neurovascular businesses continued to maintain the leading positions in the market, and various segments achieved growth with varying degrees.

Orthopedics Devices Business

The Group's orthopedics devices business offers an extensive range of products that include reconstructive joints, spine and trauma, and other professional implants and equipment. In addition, the orthopedics Global Supply Chain Center (the "GSC") established in 2015 provides centralized purchasing and logistic distribution services of surgical instruments for joints, spine and trauma in order to optimize the management of surgical instruments and consumables used in the implantation of our products.

In 2018, the Group actively expanded sales in the global market and strengthened brand building. The Group accelerated the domestic-manufacturing process and further improved domestic joint products line, to provide more diversified choices for Chinese doctors and patients. For the year ended 31 December 2018, the Group's orthopedics devices business recorded revenue of US$236.3 million, representing a year-on-year growth of 3.8% (excluding the foreign exchange impact).

In 2018, the international (non-China) orthopedics business recorded revenue of US$218.5 million, representing an increase of 2.0% as compared to the previous year (excluding the foreign exchange impact), which was basically in line with the market level. The decrease in revenue growth rate was due to the change in the high-level marketing staff in the U.S. and Italy in the second half of 2018, and the loss of a major U.S. distributor. By region, businesses in the U.S. and Japan achieved a growth of 2.7% and 7.9% (excluding the foreign exchange impact), respectively, and continued to maintain growing. In 2018, based on the high-quality performance of existing products, the Group further upgraded its products and continued its efforts in development and research of new products, including the launch of the Evolution™ CCK system, the Evolution™ tibial tool with stem and the optimized 12 patch lining of

the Prime™ Acetabular System. In addition, 2018 marked the 20th anniversary of launch of the Medial-Pivot Total Knee Replacement System in orthopedics. Currently, the global implant volume has exceeded 600,000. The Group held its 20th anniversary celebrations in various places to further enhance its brand recognition. The Group also actively participated in industry conferences, held seminars and started more industry cooperation. In terms of clinical trial, the clinical and radiological outcomes of cemented and cementless a MP™ Knee System were released by the Group in 2018, the survivorship rate analysis of which showing that the cumulative success rate of the two Medial-Pivot Knees reached 100%, and all patients showed significant improvement in the Knee Society scores and Oxford knee scores post-operatively as well. For the year ended 31 December 2018, the international (non-China) orthopedics business recorded positive operating profit for the very first time since its acquisition, and the losses continued to narrow. However, due to the facts that the revenue growth and improvement in gross profit margins were below expectation, coupled with fluctuations in the U.S. dollar exchange rate which negatively impacted the sales from the Group's international distributors businesses, the Group did not reach the breakeven target of this segment.

For the year ended 31 December 2018, the China orthopedics business recorded revenue of US$17.8 million, representing a growth of 32.8% as compared to last year (excluding the foreign exchange impact), which was mainly due to the rapid sales growth of 31.6% of its joint business. Leveraging the superiority of its product concepts, the Group strengthened its centralized and high-frequency promotion in the market, actively carried out product training and enhanced customer acceptance. In 2018, the joint products of the Group were continuously recognized by major hospitals with implant volume exceeding 10,000, more than 400 new hospitals were newly developed, and the hospital coverage rate increased steadily, the joint surgery also grew rapidly, surpassing the industry average. For the spine and trauma business, the Group continued to optimize and improve existing products, and actively developed products after layout. The revenue maintained rapid growth in 2018 and gross profit margin improved significantly as well. GSC operates steadily and explores the international market. Orthopedics instrument continued to improve its operation efficiency. The Group's in-house developed instrument kit for ADVANCE™ total knee replacement system and Evolution™ instrument kit case, which gained NMPA approval and launched in 2018, were expected to significantly save device costs for the Chinese orthopedics business. The outstanding R&D capability of China's orthopedic business also provides strong support for the development of such business segment, and diversifies sales mix in China and increases competitiveness. In December 2018, the domestic hip prosthesis component femoral stem was certified. In January 2019, the Group's first domestic total knee replacement system product Aspiration™ Medial Stability Total Knee Replacement System-PS Type Implant was certified, which enabled the Group to take a solid step in the import substitution process.

Cardiovascular Devices Business

The Group's cardiovascular devices business offers products and services for the treatment of coronary artery related diseases. The Group's committed to develop, manufacture and commercialize market-leading coronary stents and the relevant delivery systems, along with balloon catheters and accessories.

For the year ended 31 December 2018, the Group's cardiovascular business recorded revenue of US$202.8 million, representing an increase of 22.0% as compared to last year (excluding the foreign exchange impact). On the basis of consolidating the original market, the Group actively explored new

markets to secure a leading position in terms of market share in China. For the year ended 31D 2018, the sales revenue of the Group's DES in the Chinese market increased by 22.2% as compared to the same period of last year (excluding the foreign exchange impact), among which, revenue from the Group's premium product Firehawk™ stent increased by 48.5% as compared to the same period of last year (excluding the foreign exchange impact). The revenue from value-end product Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™") increased by 11.7% as compared to the same period of last year. The Group's balloon products business continued to maintain rapid growth, with an increase of 60.1% in sales revenue as compared to the same period of last year (excluding the foreign exchange impact).

In 2018, the Group's cardiovascular business continued its market expansion, with particular focus on the development of county-level markets. As at 31 December 2018, the Group's DES covered more than 1,700 hospitals in China, representing an year-on-year increase of 18.9%, of which, the hospital coverage of Firebird2™ increased by 16.0% on an year-on-year basis; and the hospital coverage of Firehawk™ increased by 29% on an year-on-year basis. In the international market, Firehawk™ has been sold in 24 countries or regions, an addition of 6 countries or regions as compared to 2017, including Hong Kong, Taiwan region, Spain, Bulgaria, Panama and Peru, among them, Firehawk™ had already received approvals for registration in Taiwan region, Myanmar, and Serbia for the first time.

In terms of clinical trial, in September 2018, the world's leading authoritative medical journal, The Lancet, published the research results of the large-scale clinical trial (TARGET AC) of the Firehawk™ stent independently developed by the Group in Europe, marking that the Firehawk™ stent has become the world's new leader in the new heart stent industry.

CRM Business

The Group's CRM business principally develops, manufactures and markets products including defibrillators, cardiac resynchronization therapy devices and pacemakers for the diagnosis, treatment and management of heart rhythm disorders and heart failure.

Since the Group completed the acquisition of CRM business from LivaNova on 30 April 2018, the globalization strategy of CRM business has been further implemented, and it is conducive to the launch of domestic products and enhance competitiveness. During the consolidated period in 2018, the CRM business recorded revenue of US$158.4 million.

In 2018, the sales performance of the international (non-China) CRM business was less satisfactory than that of the competitors due to the incomplete product portfolio. In view of this, the Group focused on R&D investment and product innovation. Products newly launched in 2018 included xFine ("xFine™") electrode leads and the new Smart Touch™ tablet program controller ("Smart Touch™") for implantable ECG devices. In June 2018, PLATINIUM™ 4LV SonR CRT-D ("SonR") cardiac resynchronization therapy device and its ancillary SonRtip™ electrode leads with innovative technology were approved for launch in Japan. SonR is the world's first and only sensor based therapeutic optimization for CRT. The world's smallest 1.5T and 3T magnetic resonance conditional pacemakers Eno™ and Teo™ series were

launched in early 2019 and completed the first worldwide implant. The new product launch has promoted its overall competitiveness. In the second half of 2018, the decline in revenue of such business slowed down. The international (non-China) CRM business recorded revenue for the period from 30 April 2018 to 31 December 2018, and achieved reported revenue of US$152.7 million.

MicroPort Sorin CRM (Shanghai) Co., Ltd. ("MSC") manages the R&D, production and marketing of the Company's CRM business in China. Since its establishment, the business has pushed forward its operation in an orderly manner with the guideline of the "Serving China", "Made in China" and "Created in China". For the year ended 31 December 2018, the China CRM business achieved revenue of US$5.7 million representing a rapid growth of 145.6 % as compared to previous year (excluding the foreign exchange impact), mainly due to the new growth opportunities brought by the launch of new products and the rapid increase in brand recognition. As the first Chinese domestic pacemaker with world-class quality, the Rega™ Family Implantable Pacemakers ("Rega™ Pacemakers") began its first implantation in March 2018, and was applied in more than 130 hospitals in 11 provinces in more than 9 months, the domestic brand quickly gained recognition. In August 2018, the Group's self-developed CompassAnalyzer™ Pacing System Analyzer (PSA) officially obtained the domestic medical device registration certificate. In November 2018, Beflex™ active fixed spiral electrode leads was officially approved by the State Drug Administration of China. MSC will now provide patients with CRM disease in China with complete solutions, including pacemakers with world-class quality, pacing leads, pacing system analyzers, pacing program control follow-up and patient electronic guarantee card system.

Endovascular Devices Business

The Group's endovascular devices business focuses on providing a range of products and services for the interventional treatment of thoracic and abdominal aortic aneurysm, peripheral vascular disease, aortic dissection, and other endovascular related diseases.

For the year ended 31 December 2018, the endovascular devices business recorded revenue of US$35.0 million, representing a rapid increase of 39.6% as compared to the previous year (excluding the foreign exchange impact), significantly exceeding the average growth rate of the market, which was benefited from the competitive advantage in all levels of cities and the rapid growth of the Chinese endovascular repair market. In addition, Castor™ single-branched thoracic aortic stent ("Castor™") was launched and successfully promoted. With good clinical results, it has been promoted and applied in nearly 150 hospitals across the country and as a positive result driver, marking that the independent research and development and innovation capability of such business is at the leading level in the industry. In 2018, the Group continued its sales strategy of "Development of the Second, Third and Fourth-Tier Hospitals with Intensive Efforts" of such business, building connections with a total of more than 100 newly developed hospitals.

With its own R&D and innovation capability, the Group has developed a new generation of intraoperative stent system, the Fontus™ Branch Intraoperative Stent System ("Fontus™"), based on the original CRONUS™ Straight Intraoperative Stent System. In August 2018, Fontus™ passed the inspection of NMPA and entered the special approval process for innovative medical devices ("Green Path"). So far, a total of five products in the endovascular segment have been approved for Green Paths, with significant innovation advantages and driving long-term development.

EP Devices Business

The principal business of the EP devices segment is the manufacturing and marketing of minimally invasive medical devices for the intervention treatment of electrophysiological diseases. The Group has launched a complete set of solutions for treatment of tachyarrhythmia supraventricular tachycardia and atrial fibrillation radio frequency ablation, providing physicians and patients with a more comprehensive EP product instrument portfolio. The Group has also become the only Chinese company that can provide arrhythmia with complete 3D mapping equipment and catheter solutions in such field.

For the year ended 31 December 2018, the revenue of the EP devices business recorded a year-on-year growth of 34.5% (excluding foreign exchange impact), due to the high quality of self-developed products and the promotion of 3D surgery throughout China. In 2018, the second-generation Columbus™ 3D EP Navigation System ("Columbus™") and EasyFinder™ Deflectable Mapping Catheter 3D ("EasyFinder™") independently developed by the Group obtained approval from CFDA, now known as NMPA, effectively filling the vacancy in domestic EP devices in China. In June 2018, the Health Economic Evaluation Report on Columbus™ and its Matching Catheters was successfully published. As the first domestically developed magnet location full curve visualization 3D EP Navigation System, and the only domestically certified system that has obtained CE certification, the Columbus™ system has won unanimous recognition from domestic and foreign experts since its launch.

On 30 November 2018, the quotation of Shanghai MicroPort EP MedTech Co., Ltd. on the National Equities Exchange and Quotation was terminated as a part of the Group's business development needs and long-term strategic development plan.

Neurovascular Devices Business

The Group's neurovascular business segment specializes in providing products and services for the treatment of neurovascular diseases including Cerebral Aneurysms, Intracranial Atherosclerotic Diseases ("ICAD"), Carotid Artery Diseases ("CAD") and other neurovasculature related diseases. Three neurovascular devices were available for sale in 2018. APOLLO™ Intracranial Stent System ("APOLLO™") for cerebral ischemia is for treatment of intracranial atherosclerotic cerebrovascular stenosis. WILLIS™ Intracranial Stent Graft System is the only stent graft system for intracranial cerebral aneurysms approved by NMPA. The Tubridge™ Vascular Reconstruction Device (the "Tubridge™") is the first approved domestic blood flow device for the treatment of intracranial large and giant aneurysms in China. In addition, there are a number of products of the Group under development to strengthen the neurovascular product line in the future.

For the year ended 31 December 2018, the neurovascular devices business continued its rapid growth and its revenue increased by 36.5% (excluding the foreign exchange impact) as compared to that of last year, of which, the revenue of our APOLLO™ with 14 years' launch remains organic growth, which was mainly attributable to the safety and effectiveness of the product and its market dominance. WILLIS™, the only stent graft system for treatment of intracranial aneurysms in China, recorded a year-on-year decrease in revenue due to changes in the competitive landscape. In March 2018, the Group's self-developed Tubridge™ received registration approval from NMPA, becoming the first flow diverting stent approved in China. In April of the same year, Tubridge™ successfully completed the first clinical

implantation in China after being approved by NMPA. The launch of Tubridge™ brings new growth momentum to the business segment. In addition, Vertebral Artery Rapamycin Target Eluting Stent, the world's first drug-eluting stent indicated for the treatment of vertebral artery stenosis, has passed review and entered the Green Path.

Research and Development ("R&D")

Excellent R&D capability and effective R&D are key drivers for the sustainable development of the Group as an innovative medical device company. Over the past 20 years, the Group has been pursuing the mission of "making continuous innovation to provide doctors with the best inclusive medical solutions that can save and reshape patients' lives or improve their quality of life". With the goal of import substitution and building Chinese brand, we, through higher standards and better practices, are committed to innovation and research and development of global leading technologies, to create a technological innovation system combining production, education and research, and provide quality products and services to the global market, providing the strongest driving force for the sustainable development of the Group.

In 2018, the Group's R&D projects were carried out in an orderly manner. A total of 10 products gained NMPA approval and three products entered the Green Path. Since the establishment of the Green Path, 15 products of the Group has been granted access to the Green Path as at the end of 2018.

For orthopedics products, the hip joint prosthesis stem that is independently developed by the Group combining the SuperPATH™ technology has obtained the registration certificate issued by NMPA, which is the first registration certificate obtained by the Group's domestic joint products. The approval for launch of this product will further accelerate the promotion and popularization of SuperPATH™ technology to serve more patients. In early 2019, the Aspiration™ medial stability Total Knee Replacement System-PS Type Implant received a registration certificate issued by NMPA. It is the first approved domestic total knee replacement system for MicroPort Orthopedics, which will provide a more comprehensive total knee replacement solution for Chinese patients. In addition, the Group's self-developed domestic instrument kit for ADVANCE™ and knee kit for Evolution™ also have obtained certification for launch.

For the cardiovascular devices business, the Group announced two-year follow-up results of the First-In-Man study (the FUTURE-I) of the Group's in-house developed Firesorb™ Bioresorbable Sirolimus Target Eluting Coronary Scaffold System (the "Firesorb™"), which has further demonstrated the feasibility, preliminary safety and efficacy of Firesorb™ in treating patients with single-vessel coronary diseases.

For the endovascular devices business, the Group's self-developed Fontus™ branched surgical stent passed NMPA's review and entered the Green Path. Its single-branched stent structure reduces the difficulty of surgery, shortens the operation time, and allows the stent to be more accurate, smoother and safer.

For the EP devices business, the second-generation Columbus™ 3D EP Navigation System and EasyFinder™ Deflectable Mapping Catheter 3D independently developed by the Group were certified. The single-channel ECG recorder gained approval from Shanghai Municipal Food and Drug Administration (now known as "Shanghai Municipal Medical Products Administration") and became the first product approved through the Marketing Authorization Holder system nationwide.

For the neurovascular devices business, the Group's self-developed Tubridge™ Vascular Reconstruction Device received registration approval from NMPA, becoming the first flow diverting stent approved in China. The Vertebral Artery Rapamycin Target Eluting Stent is the world's first drug-eluting stent indicated for the treatment of vertebral artery stenosis and entered the Green Path in March 2018 with an expectation to accelerate the market launch process to benefit more patients.

As for its structural heart business, the Group announced the one-year follow-up study results for the Group's in-house developed VitaFlow™ Transcatheter Aortic Valve and its Delivery System ("VitaFlow™"). The data demonstrated the occurrence of all-cause mortality is as low as 2.7%, and there is no major stroke. All of the patients reported good hemodynamic function, no moderate or severe paravalvular leakage. The one-year clinical data of VitaFlow™ demonstrated that VitaFlow™ is safe and effective in treating severe calcified aortic stenosis. In December 2018, the Group's self-developed new generation of VitaFlow™ II Transcatheter Aortic Valve and its Retrievable Delivery System ("VitaFlow™ II System") passed the special review procedure regarding innovative medical device of NMPA and was granted Green Path, which further promoted the clinical application and popularization of the product in China. In addition, VitaFlow™ II System successfully enrolled its first patient in the pre-marketing clinic research project VITALE trial in Europe ("VITALE Trial"). VITALE Trial is the first pre-marketing clinical trial in Europe. In 2018, R&D for surgical robotics was continuously promoted and achievements gradually came out.

Manufacturing

In 2018, the Group continued to focus on the refined management of the supply chain process, automation and digitization of the production process, instillation of the safety culture and the effective implementation of energy saving and emission reduction

In 2018, the Group was committed to increasing production efficiency through optimizing the supply chain, improving product processes, shortening production cycles, and continuously developing automated and intelligent equipment. Through the adjustment of production line layout, the Group made the best use of existing space, optimized production process to lower quality risk, and laid the foundation for the automated operation in the future. With the constantly improving intelligent manufacturing technology, the Group developed an automatic assembly line and achieved full automation for part of the production process in 2018. In addition, the Group also developed an automatic testing prototype to improve the traceability and stability of product testing, decrease the operation difficulty of staff and increase their work efficiency.

Quality Assurance

Priority is given to "quality" in the values of the Group as the Group knows that the quality of each of its products has close bond with human life. The Group has an independent quality and regulatory business

department and devote significant resources to quality management of our products through monitoring every stage of our quality control process, including R&D, product design, procurement of raw materials, manufacturing, product release, product feedback and risk management, so as to assure that the product quality meets the Group's quality management standards and policies. The quality and regulatory business department also conducts inspection on our products both during and after the manufacturing process, including raw material inspection, manufacturing process inspection and final products delivery inspection.

In 2018, the Group made a comprehensive breakthrough in quality control, providing strong quality assurance for the R&D of products and post-market products. The Group improved the inspection skills and reduced inspection costs to ensure smooth delivery of products. Electronic recording is now applied to the whole manufacturing process of products and acceptance check is done without the use of paper. In addition, the Group also optimized the compliance control process of software and continued to explore the level of intelligent inspection. In order to coordinate with the implementation of the system of the registrant of medical device, the Group has well defined the special requirements of the quality management system related to trusted production, and formulated the management system to standardize the process, thus opening up a duplicable and worth popularising registrant path within the Group. In 2018, the excellent quality brand of the Group was fully recognized by the society and the Group was awarded the Golden Quality Award of Shanghai Municipality in 2018, becoming the first enterprise in the medical device industry to win such award since the establishment of the Quality Award of Shanghai Municipality. The Group was also honored with the title of "Quality Benchmark" enterprise of Shanghai in 2018 in recognition of its "practical experience in implementing integrated management model of technological innovation and industrialization".

Competition

The environment in which we operate is continuously evolving. As a domestic market leader among PRC companies manufacturing medical devices, the Group is facing competition both domestically and internationally. In spite of the foregoing, the Group insists on independent innovation to strengthen its core competitiveness, and takes a leading position in various market segments by virtue of its high-quality products. The Group is also highly recognized by all sectors of society for its products and brands. Therefore, the Group is confident that it will maintain its current leading market position domestically and continue to expand the overseas market share.

Intellectual Property

Intellectual property is an important intangible asset of the Group, and also an inherent driver to enhance our core competitiveness in the medical devices market. Thus, while being devoted to technological innovation, we also attach great importance to the patent application and the intellectual property protection, which are conducive to the healthy and sustainable development of the Group in the long run. In 2018, the Group filed 298 patent applications and 156 trademark applications domestically and internationally. As at the end of 2018, the Group had a total of 3,432 patents (including applications) covering 28 countries and 1,679 trademarks (including applications) covering 66 countries.

FINANCIAL REVIEW

OVERVIEW

Faced with technical changes in the global medical device industry, in particular the challenges in the rapidly growing medical device industry from a highly competitive global market, the Group has successfully achieved a revenue growth of 50.7% for the year ended 31 December 2018. The Group's cardiovascular devices, endovascular devices and neurovascular devices business as maintained the leading positions in China. The Group firmly continued to provide diversified products and continued our globalization strategy thereby generated 57.9% of the revenue from overseas market. The Group aims to continuously bring our innovations, technologies and services to millions of global patients and become a patient-oriented global leading enterprise in minimally invasive treatment and other emerging medical market.

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

REVENUE

US$'000	**Financial year ended**		Percent change	
	2018	2017	in US$	excluding the foreign exchange impact
Orthopedics devices business	**236,279**	224,607	5.2%	3.8%
Cardiovascular devices business	**202,817**	163,299	24.2%	22.0%
Cardiac Rhythm Management devices business *(*Note 1)*	**158,376**	2,348	6,644.8%	6,575.8%
Endovascular devices business	**34,975**	24,793	41.1%	39.6%
Neurovascular devices business	**18,427**	13,513	36.4%	36.5%
Electrophysiology devices business	**12,691**	9,417	34.8%	34.5%
Surgical devices business	**5,925**	5,498	7.8%	6.2%
Diabetes and endocrinal devices business *(*Note 2)*	**–**	715	(100.0%)	(100.0%)
Total	**669,490**	444,190	50.7%	48.6%

**Note:*

1 The acquisition of the CRM business from LivaNova was completed on 30 April 2018. The financial results of the CRM business have been consolidated into the financial statement of the Group thereafter. As such, the revenue of this segment for the year ended 31 December 2018 includes the acquired business for the period from 30 April 2018 to 31 December 2018 and the original pacemaker business for the year ended 31 December 2018.

The revenue of the cardiovascular devices business and the CRM business for the year ended 31 December 2017 was reclassified and the revenue attributable to the pacemaker business previously included in the cardiovascular devices business was reallocated to the CRM business.

2. This segment was restructured in 2017 whereby the Group ceased to hold the controlling interest of Shanghai MicroPort Lifesciences Co., Ltd. (the "MP Lifesciences Shanghai") and therefore MP Lifesciences Shanghai became an associate entity of the Group.

The Group's revenue for the year ended 31 December 2018 was US$669.5 million, representing a growth of 50.7% compared to US$444.2 million for the year ended 31 December 2017. The Group's reported revenue was impacted by translation from Renminbi ("RMB"), the functional currency of the Group's PRC subsidiaries, to US$, the presentation currency of the Group due to the appreciation or depreciation of US$ against RMB during 2018. Excluding the foreign exchange impact, the Group's revenue growth rate was 48.6%. Such increase was primarily driven by the strong sales performance of the cardiovascular devices business. The following discussion is based on the Group's eight major business segments.

– *ORTHOPEDICS DEVICES SEGMENT*

REVENUE

US$'000	**Financial year ended**		Percent change	
	2018	2017	in US$	excluding the foreign exchange impact
Orthopedics devices business	**236,279**	224,607	5.2%	3.8%
– U.S.	**99,673**	97,074	2.7%	2.7%
– EMEA	**60,122**	58,930	2.0%	(2.1%)
– Japan	**34,494**	31,377	9.9%	7.9%
– PRC	**17,838**	13,472	32.4%	32.8%
– Others	**24,152**	23,754	1.7%	1.6%

Orthopedic devices segment achieved revenue of US$236.3 million for the year ended 31 December 2018, representing a growth of 3.8% (excluding the foreign exchange impact) or 5.2% in US$ compared to the year ended 31 December 2017. Such operational increase was mainly because (i) revenue in the U.S. market achieved a 2.7% growth (excluding the foreign exchange impact) over the previous year as the U.S. market focused on opening new sales channels, surgeon training effectiveness, and new product launches which accelerated revenue growth trend in the U.S. market; (ii) revenue in Japan market increased by 7.9% (excluding the foreign exchange impact) over the previous year, which was mainly attributable to positive momentum from Japan market driven by a focus on sales execution and customer development; (iii) revenue in EMEA market decreased by 2.1% (excluding the foreign exchange impact) over the previous year, mainly attributable to the strategy to shift away from lower margin sales channels to higher margin subsidiaries for the optimization of the allocation of resources; (iv) revenue in the PRC market increased by 32.8% (excluding the foreign exchange impact) over the previous year, which was attributable to greater market recognition and brand awareness of MicroPort orthopedics leading to a significant increase in clinical implants volume; and (v) sales in other markets achieved growth of 1.6% (excluding the foreign exchange impact) over the previous year driven by steady growth in Australia market.

– *CARDIOVASCULAR DEVICES SEGMENT*

The Group's cardiovascular devices segment achieved revenue of US$202.8 million for the year ended 31 December 2018, representing a growth of 22.0% (excluding the foreign exchange impact) or a growth of 24.2% in US$ compared to the year ended 31 December 2017. Such increase was mainly attributable to: (i) Firehawk™ penetrating into an increasing number of hospitals in China and more overseas countries, with its global revenue achieving a 40.9% growth (excluding the foreign exchange impact) over the previous year; and (ii) Firebird2™ sales in the PRC market maintaining an organic growth of 11.7% (excluding the foreign exchange impact) as compared with the year ended 31 December 2017 through advanced distribution channels.

– *CRM BUSINESS*

CRM business was acquired by the Group from LivaNova, and such acquisition was completed on 30 April 2018. Following completion of such acquisition, the financial results of the CRM business has been consolidated into the financial statements of the Group. The revenue of this segment for the year ended 31 December 2018 has included the results of the acquired business for the period from 30 April 2018 to 31 December 2018 and the results of the original pacemaker business for the year ended 31 December 2018. CRM business achieved revenue of US$158.4 million for the year ended 31 December 2018.

– *ENDOVASCULAR DEVICES SEGMENT*

The Group's endovascular devices segment achieved revenue of US$35.0 million for the year ended 31 December 2018, representing a growth of 39.6% (excluding the foreign exchange impact) or a growth of 41.1% in US$ compared with the year ended 31 December 2017. Such increase was mainly attributable to: (i) positive market recognition and enhanced competitiveness of the Group's endovascular products in thoracic aortic aneurysm and endovascular treatment market as a result of the market launch of Hercules™ Low Profile product; (ii) positive market recognition of the newly launched product Castor™, the world's first thoracic branch stent-graft system; and (iii) in response to government guideline, cultivating markets in second-tier and third-tier cities in China through effective promotion mechanisms.

– *NEUROVASCULAR DEVICES SEGMENT*

The Group's neurovascular devices segment recorded revenue of US$18.4 million for the year ended 31 December 2018, representing a growth of 36.5% (excluding the foreign exchange impact) or a growth of 36.4% in US$ compared to the year ended 31 December 2017. Such increase was mainly attributable to: (i) APOLLO™ Intracranial Stent System maintained an organic growth driven by its greater market recognition; (ii) positive market recognition for newly launched Tubridge™, the first flow diverting stent approved for product launch in China; and (iii) rapid growth of an agent product, neurovascular guide wire ASAHI.

– *EP DEVICES SEGMENT*

The Group's EP devices segment recorded revenue of US$12.7 million for the year ended 31 December 2018, representing a growth of 34.5% (excluding the foreign exchange impact) or a growth of 34.8% in US$ compared to the year ended 31 December 2017. Such increase was mainly attributable to: (i) the significant expansion of the Group's distribution network and hospital coverage, the premium quality of the in-house-developed products, and (ii) rapid revenue growth of new products i.e. Columbus™ 3D EP Navigation System, FireMagic™ 3D Irrigated Ablation Catheter.

– *SURGICAL SEGMENT*

The Group's surgical devices segment recorded revenue of US$5.9 million for the year ended 31 December 2018, representing a growth of 6.2% (excluding the foreign exchange impact) or a growth of 7.8% in US$ as compared to the year ended 31 December 2017. Such increase was mainly attributable to the sales growth of ultrafiltration and surgical consumables driven by effective sales promotion activities.

– *DIABETES AND ENDOCRINAL DEVICES SEGMENT*

The Group's diabetes and endocrinal devices segment was restructured in 2017 whereby the Company ceased to hold the controlling interest in MP Lifesciences Shanghai which therefore became an associate of the Company, and its revenue was no longer consolidated since the date of restructuring.

COST OF SALES

For the year ended 31 December 2018, the cost of sales of the Group was US$199.5 million, representing a 58.6% increase as compared to US$125.8 million for the year ended 31 December 2017. Such increase was mainly attributable to: (i) the increased sales volume of the major segments; and (ii) the increased cost of the CRM business which was acquired in 30 April 2018 and consolidated in the year ended 31 December 2018.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, the gross profit of the Group increased by 47.6% from US$318.4 million for the year ended 31 December 2017 to US$470.0 million for the year ended 31 December 2018. Gross profit margin is calculated as gross profit divided by revenue. The gross profit margin of the Group decreased from 71.7% for the year ended 31 December 2017 to 70.2% for the year ended 31 December 2018, mainly due to the dilutive impact of the newly acquired CRM business with a gross margin lower than the average of the Group.

OTHER NET INCOME/(LOSS)

Other net income of the Group amounted to US$13.8 million for the year ended 31 December 2018, while incurred other net loss of US$2.5 million for the year ended 31 December 2017. Such increase was mainly attributed to the increase in government grant and the foreign exchange net gain for the year ended 31 December 2018 as compared with a foreign exchange net loss for the year ended 31 December 2017.

GAIN ON DEEMED DISPOSAL OF A JOINT VENTURE

MSC was previously jointly controlled by the Group and LivaNova. After the completion of the CRM Acquisition, MSC became a subsidiary of the Company with its assets and liabilities consolidated into the Company's consolidated financial statements. Accordingly, the acquisition-date fair value of the existing equity interests in MSC owned by the Group forms part of the consideration in determining the amount of goodwill. A gain of US$4.1 million in relation to the deemed disposal of interests in a joint venture was recognised in the consolidated profit or loss statements of the Group for the year ended 31 December 2018, which was determined as the excess of the fair value of the existing equity interests in MicroPort Sorin CRM, over the nil carrying value of investment in the joint venture.

R&D COSTS

R&D costs increased by 80.2% from US$58.2 million for the year ended 31 December 2017 to US$104.8 million for the year ended 31 December 2018. Such increase was mainly attributable to: (i) the acquisition of the CRM business, which incurred R&D costs of US$31.6 million for the year ended 31 December 2018; and (ii) the increased investments in the on-going R&D projects and the newly kicked off R&D projects.

DISTRIBUTION COSTS

Distribution costs increased by 58.1% from US$137.8 million for the year ended 31 December 2017 to US$217.8 million for the year ended 31 December 2018. Such increase was mainly attributable to: (i) the acquisition of the CRM business, which incurred distribution costs of US$61.1 million for the year ended 31 December 2018; (ii) increase in sales promotion and post-launching clinical trial expenses; and (iii) increase in staff cost.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 43.3% from US$66.8 million for the year ended 31 December 2017 to US$95.7 million for the year ended 31 December 2018. Such increase was mainly attributable to: (i) the acquisition of the CRM business, which incurred administrative expenses of US$18.6 million for the year ended 31 December 2018; and (ii) increase in staff cost.

OTHER OPERATING COSTS

The Group's operating costs increased by 154.2% from US$5.3 million for the year ended 31 December 2017 to US$13.4 million for the year ended 31 December 2018. Such increase was mainly attributable to: (i) the increase in related professional fees for business acquisition and (ii) increase of impairment loss of intangible assets.

FINANCE COSTS

The Group's finance costs increased from US$13.5 million for the year ended 31 December 2017 to US$21.0 million for the year ended 31 December 2018. Such increase was mainly attributable to the interest expenses of new interest-bearing borrowings for the acquisition of the CRM business.

INCOME TAX

The Group's income tax increased from US$13.4 million for the year ended 31 December 2017 to US$14.5 million for the year ended 31 December 2018. Such increase was mainly attributable to the increase in profit before tax of the PRC subsidiaries of the Company.

CAPITAL MANAGEMENT

The primary goal of the Group's capital management is to maintain the Group's stability and growth, safeguard its normal operations and maximize shareholders' value. The Group reviews and manages its capital structure on a regular basis, and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of bank loans or issuance of equity or convertible bonds.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had cash and cash equivalents of US$130.1 million, as compared to US$160.2 million as at 31 December 2017. Such decrease was mainly attributable to the cash consideration paid for the acquisition of the CRM business. 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 borrowings of the Group, including interest-bearing borrowings and convertible bonds, as at 31 December 2018 were US$329.1 million, with an increase of US$77.6 million as compared to US$251.5 million as at 31 December 2017. Such increase was driven by the new interest-bearing bank loans for the acquisition of the CRM business. As at 31 December 2018, the gearing ratio (calculated by dividing total borrowings by total equity) of the Group increased to 62.2%, while that as at 31 December 2017 was 57.2%.

NET CURRENT ASSETS

The Group's net current assets as at 31 December 2018 were US$114.3 million, as compared to US$230.8 million as at 31 December 2017.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily from sales, purchases, borrowing and lending which give rises to receivables and payables that are denominated in a foreign currency (mainly RMB, Euro and Japanese yen). For the year ended 31 December 2018, the Group recorded a net exchange gain of US$9.6 million, as compared to a net foreign exchange loss of US$11.0 million for the year ended 31 December 2017. The Group did not have any significant hedging arrangements to manage foreign exchange risk but has been actively monitoring and overseeing its foreign exchange risk.

CAPITAL EXPENDITURE

On 30 April 2018, the Group had additions in property, plant and equipment with fair value of US$22.8 million through the acquisition of the CRM business from LivaNova. In addition, during the year ended 31 December 2018, the Group's total capital expenditure amounted to approximately US$90.1 million, which was used in (i) construction of building; (ii) acquiring equipment and machinery and (iii) expenditures for R&D projects in development stage.

CHARGE ON ASSETS

As at 31 December 2018, the Group had set pledge on its bank deposits, manufactory building, headquarter building and land use rights held for own use for the purpose of securing bank loans with a carrying value of US$62.3 million.

As at 31 December 2018, a bank loan amounting to US$88.8 million in connection with the acquisition of the CRM Business was secured by the equity interests of the Company's four subsidiaries, namely Shanghai MicroPort Medical (Group) Co., Ltd. ("MP Shanghai"), MicroPort International Corp. Limited, MicroPort International Corp. and MicroPort Cardiac Rhythm B.V. and guaranteed by MP Shanghai.

FUTURE INVESTMENT PLANS AND EXPECTED FUNDING

Looking forward, the Group will continue to expand its markets at home and abroad so as to tap into its internal potential, hereby maximizing shareholders' interest and creating higher value. The Group will continue to grow the Group both in scale and strength through self-development, mergers and acquisitions, and other means. The Group's future business plan will employ a combination of financing channels to finance capital expenditures, including but not limit to internal funds and bank loans. Currently, the bank credit lines available to the Group are adequate.

SUBSEQUENT EVENTS

1. In February 2019, MicroPort EP MedTech Co., Ltd. ("MPEP") and the original shareholders of MPEP entered into a capital increase and share transfer agreement and a shareholder agreement with Jiaxing Huajie I Equity Investment Limited Partners (Limited Partnership) ("Jiaxing Huajie"), an independent third party of the Company, pursuant to which, Jiaxin Huajie agreed to (i) subscribe for 16,477,942 newly issued ordinary shares of MPEP at a cash consideration of RMB200,000,000; and (ii) acquire 18,362,194 ordinary shares of MPEP from the Group at a cash consideration of RMB222,870,000. Upon the completion of the above transactions, the Group's equity interest in MPEP will be decreased from 81.93% as at 31 December 2018 to 45.10%. As the highest applicable percentage ratio applied in accordance with Rule 14.07 of Listing Rules in respect of the transactions mentioned above is less than 5%, the transactions mentioned above do not constitute disclosable transactions under Chapter 14 of the Listing Rules.

2. On 22 March 2019, the Group, the other original shareholders (or its subsidiary) of MP CardioFlow Shanghai and Qianyi Investment I L.P. (the "CardioFlow Series C Investor") entered into a framework agreement in relation to, among others, the restructuring of shareholding of MP CardioFlow Shanghai (the "Restructuring"). Upon the completion of the Restructuring (without consideration of the investment by Series C Investor): (i) MicroPort CardioFlow Medtech Corporation (the "MP CardioFlow Cayman", a subsidiary of the Group) will indirectly hold the entire equity interest in MP CardioFlow Shanghai; and (ii) the original shareholders of MP CardioFlow Shanghai will, directly or indirectly, hold shares of MP CardioFlow Cayman in the same proportion to their shareholdings in MP CardioFlow Shanghai before the Restructuring.

   On 22 March 2019, the Group, the other original shareholders (or its subsidiary) of MP CardioFlow Shanghai and the CardioFlow Series C Investor also entered into a share purchase agreement (the "CardioFlow Series C SPA"), pursuant to which, among others, the CardioFlow Series C Investor agreed to subscribe for, and MP CardioFlow Cayman agreed to sell and issue 12,500,000 preferred shares of MP CardioFlow Cayman to the CardioFlow Series C Investor at a price of US$50,000,000. The CardioFlow Series C Investor will hold 12% of enlarged share capital (including ordinary shares and preferred shares) of MP CardioFlow Cayman and Group's effective interest in MP CardioFlow Shanghai will decrease from 64.72% as at 31 December 2018 to 56.63% upon the completion of the Restructuring (including investment by CardioFlow Series C Investor under the CardioFlow Series C SPA).

   In connection with the above transactions, MP CardioFlow Cayman also intends to write put options to the CardioFlow Series C Investor and certain other original shareholders (or its subsidiary) of MP CardioFlow Shanghai (the "Investors") upon adoption of its First Amended and Restated Memorandum and Articles of Association (the "Restated Memorandum and Articles"). The put options will give the CardioFlow Series C Investor the rights to require MP CardioFlow Cayman to re-acquire the redeemable preferred shares from the CardioFlow Series C Investor under certain conditions at a consideration specified under the Restated Memorandum and Articles of MP CardioFlow Cayman.

Further details of the Restructuring and the CardioFlow Series C SPA were set out in the Company's announcement dated 22 March 2019.

3. After the reporting period, the Directors of the Company proposed a final dividend for the year ended 31 December 2018 of HK2.9 cents per ordinary share, which has not been recognized as a liability at 31 December 2018.

PROSPECT

With the development of China's economy, increased investment from the government in social medical insurance, policy benefits from reform of the medical system and gradual improvement in people's health awareness, the medical equipment market in the PRC has been growing rapidly to provide an opportunity for the rapid development of the Group's business. At the same time, such rapid development has also attracted more and more multinational corporations to enter into the market, resulting in fierce competition. In order to compete in this rapidly growing market, the Group will continuously perform proactive strategies, including but not limited to:

1. Further strengthening our leading position in the domestic medical devices market. The Group will take advantage of our brand recognition and sales distribution network in the domestic market to further reinforce our expansion in the PRC market to maintain and strengthen our leading position in the PRC medical devices market.

2. Overall integrating MicroPort brand and its global operation. The Group will continuously promote the global brand and operation strategy based on localization, implement the operation mode of "global strategy, localized execution, diversified layout and unified positioning", and efficiently integrate global resources with the market to complete the global layout and introduce the products of the Group to more countries or regions, thus benefiting patients around the world.

3. Developing and improving our existing products with diversification of products through innovation. The Group will further develop and improve the performance and manufacturing process of the Group's existing products, and foster firm R&D activities to develop a new generation of products, actively advance the clinic trial and approval of new products and thus diversify the Group's product offering and provide a comprehensive portfolio of medical devices to physicians and patients.

4. Reforming our management system. The Group will carry out reform of our management system to integrate resources, streamline processes, and optimize our management structure so as to enhance the competitiveness and the risk resistance capability of the the Group.

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 2018 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 Company 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 2018, the Company complied with all the applicable code provisions (the "Code Provisions") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the exceptions as addressed below:

Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Reference is made to the announcement of the Company dated 21 September 2012. Dr. Zhaohua Chang ("Dr. Chang") has re-assumed the responsibility of the executive Director and at the same time, Dr. Chang was appointed as the chairman of the Company, who is responsible for managing the Board and the Group's business. As the Board considers that Dr. Chang has in-depth knowledge of 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.

Pursuant to the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. Currently, all non-executive Directors (except for the independent non-executive Directors) of the Company are not appointed for a specific term but are subject to retirement by rotation at least once every three years and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company. Since their appointments will be reviewed when they are due for re-election, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code. Nevertheless, the Nomination Committee will review and consider the necessity to engage the non-executive Directors for a fixed term and make recommendation to the Board for approval accordingly.

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

AUDIT COMMITTEE

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

Mr. Jonathan H. Chou *(Chairman)*
Mr. Norihiro Ashida
Mr. Chunyang Shao

The Company established an Audit Committee in March 2010 with written terms of reference in compliance with the CG 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 and risk management system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the reporting period and as of the date of this announcement, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2018, the financial reporting and compliance procedures, the Group's internal control and risk management systems and processes, and the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for transactions in the Company's securities throughout the financial year ended 31 December 2018.

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 in 2018.

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

Save for the 6,191,000 shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$6,237,000 on the Stock Exchange, 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 2018.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Reference is made to the announcements dated 20 November 2017, 20 February 2018, 8 March 2018, 19 April 2018, and 30 April 2018 and 27 February 2019 and the circular dated 3 April 2018 of the Company. On 8 March 2018, the Company, MicroPort Cardiac Rhythm B.V. (the "Purchaser", a subsidiary of the Company incorporated in the Netherlands) and LivaNova entered into a stock and asset purchase agreement (the "Stock and Asset Purchase Agreement"), pursuant to which, the Purchaser has conditionally agreed to acquire, and LivaNova has conditionally agreed to sell, the CRM Business (the "CRM Acquisition") for an initial consideration of US$190 million, subject to working capital and other customary adjustments. The Group believes the CRM Acquisition is in line with the development strategies of the Group and will bring long-term and strategic benefits to the Company. The CRM Acquisition was completed on 30 April 2018. The relevant subsidiary of the CRM Business has received the official confirmation from the regional antitrust authority in France that the investigation initiated by a regional antitrust authority in France into the French CRM market, which includes a subsidiary of the CRM Business operating the business in Clamart, France has been formally closed. The relevant subsidiary of the CRM Business is not subject to any fine.

Saving as disclosed above, during the year, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company.

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 2018 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 the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the existing shareholders.

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on 13 June 2019. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK$2.9 cents (tax inclusive) per share (the "Share") for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on Friday, 21 June 2019 and also to recommend the offer to the shareholders the right to select as an alternative, to receive such final dividend wholly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the AGM and the granting by the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued pursuant thereto. Once the relevant resolution is passed at the AGM, the proposed final dividend is expected to be paid on or about Thursday, 15 August 2019. Dividend warrants and share certificates for new shares to be issued under the Scrip Dividend Scheme will be dispatched by ordinary mail on or about Thursday, 15 August 2019. The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 December 2018. On the condition that the payment of the above final dividend is approved by the shareholders at the AGM, a circular containing details of the Scrip Dividend Scheme will be dispatched to the shareholders on or about Tuesday, 16 July 2019.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the AGM

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 7 June 2019 to Thursday, 13 June 2019, 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 Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6 June 2019 (Hong Kong Time), being the last registration date.

(b) For determining the entitlement to the proposed final dividend

The proposed final dividend for the year ended 31 December 2018 is subject to approval by the shareholders at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 19 June 2019 to Friday, 21 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, 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 Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 18 June 2019 (Hong Kong Time), being the last registration date.

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 2018 annual report of the Company will be dispatched 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, 27 March 2019

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 Mr. Hongliang Yu; and the independent non-executive Directors are Mr. Jonathan H. Chou, Dr. Guoen Liu, and Mr. Chunyang Shao.