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 2019

FINANCIAL HIGHLIGHTS

	Financial year ended		
	2019	2018	Change
	US$'000	*US$'000*	*%*
Revenue	**793,493**	669,490	18.5
Gross profit	**564,425**	470,016	20.1
Profit for the year	**29,009**	18,381	57.8
Profit attributable to equity shareholders of the Company	**46,281**	23,913	93.5
Earnings per share –			
Basic (in cents)	**2.92**	1.63	79.1
Diluted (in cents)	**1.98**	1.28	54.7

For the year ended 31 December 2019, MicroPort Scientific Corporation (the "Company", or "MicroPort") and its subsidiaries (collectively, the "Group") successfully recorded revenue of US$793.5 million, representing a growth of 22.0% (excluding the foreign exchange impact) or a growth of 18.5% in US$ as compared to 2018. The segments of cardiovascular devices business, endovascular devices business and neurovascular devices business grew vigorously and recorded revenue increases of 35.5%, 44.5% and 55.6%, 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$209.0 million for the year ended 31 December 2019, representing a growth of 36.9% (excluding the foreign exchange impact) as compared to 2018.

The Group recorded a profit attributable to equity shareholders of US$46.3 million for the year ended 31 December 2019, representing an increase of 93.5% as compared with that of the year ended 31 December 2018. Such increase was principally attributable to a significant revenue growth from the cardiovascular devices, endovascular devices, heart valve business and orthopedics devices segments in the PRC market, and investment gain on disposal of partial equity interests in Shanghai MicroPort EP MedTech Co., Ltd. amounting to US$55.8 million (net of tax).

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Expressed in United States dollars)
for the year ended 31 December 2019

	Note	**2019**	2018 *(Note)*
		US$'000	*US$'000*
Revenue	*4*	**793,493**	669,490
Cost of sales		**(229,068)**	(199,474)
Gross profit		**564,425**	470,016
Other net income	*5*	**18,667**	13,796
Research and development costs		**(151,486)**	(104,814)
Distribution costs		**(275,266)**	(217,792)
Administrative expenses		**(119,345)**	(95,742)
Other operating costs		**(8,538)**	(13,410)
Profit from operations		**28,457**	52,054
Finance costs	*6(a)*	**(22,698)**	(21,020)
Gain on disposal of subsidiaries	*13(a)*	**63,105**	–
Gain on deemed disposal of a joint venture		**–**	4,133
Share of losses of equity-accounted investees		**(5,656)**	(2,238)
Profit before taxation	*6*	**63,208**	32,929
Income tax	*7(a)*	**(34,199)**	(14,548)
Profit for the year		**29,009**	18,381
Attributable to:			
Equity shareholders of the Company		**46,281**	23,913
Non-controlling interests		**(17,272)**	(5,532)
Profit for the year		**29,009**	18,381
Earnings per share	*9*		
Basic (in cents)		**2.92**	1.63
Diluted (in cents)		**1.98**	1.28

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in United States dollars)
for the year ended 31 December 2019

	2019	2018 *(Note)*
	US$'000	*US$'000*
Profit for the year	**29,009**	18,381
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	**(786)**	272
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**(13,703)**	(44,229)
Other comprehensive income for the year	**(14,489)**	(43,957)
Total comprehensive income for the year	**14,520**	(25,576)
Attributable to:		
Equity shareholders of the Company	**34,399**	(15,640)
Non-controlling interests	**(19,879)**	(9,936)
Total comprehensive income for the year	**14,520**	(25,576)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2019	31 December 2018 (Note)
		US$'000	*US$'000*
Non-current assets			
Investment properties		**5,222**	5,451
Other property, plant and equipment		**428,786**	336,263
Land use rights		**–**	15,087
		434,008	356,801
Intangible assets		**125,811**	117,489
Goodwill		**160,520**	162,673
Equity-accounted investees		**54,183**	17,391
Other financial assets		**20,125**	11,910
Deferred tax assets		**13,171**	15,291
Prepayments for non-current assets		**7,551**	6,222
Other non-current assets		**41,628**	31,979
		856,997	719,756
Current assets			
Inventories		**192,321**	175,957
Trade and other receivables	*10*	**266,789**	245,143
Pledged deposits and time deposits		**1,767**	3,537
Cash and cash equivalents		**280,077**	130,054
		740,954	554,691
Current liabilities			
Trade and other payables	*11*	**283,780**	236,813
Contract liabilities		**9,522**	10,060
Interest-bearing borrowings	*12*	**32,092**	100,901
Convertible bonds		**83,107**	86,834
Lease liabilities		**10,178**	–
Income tax payable		**13,122**	5,782
		431,801	440,390
Net current assets		**309,153**	114,301
Total assets less current liabilities		**1,166,150**	834,057

	Note	31 December 2019	31 December 2018 (Note)
		US$'000	*US$'000*
Non-current liabilities			
Interest-bearing borrowings	*12*	**288,107**	137,829
Lease liabilities		**44,527**	–
Deferred income		**24,895**	23,905
Contract liabilities		**21,463**	27,766
Convertible bonds		**–**	3,571
Other payables	*11*	**116,789**	93,625
Derivative financial liabilities		**12,804**	10,640
Deferred tax liabilities		**3,600**	7,775
		512,185	305,111
NET ASSETS		**653,965**	528,946
CAPITAL AND RESERVES	*8*		
Share capital		**16**	16
Reserves		**519,008**	442,780
Total equity attributable to equity shareholders of the Company		**519,024**	442,796
Non-controlling interests		**134,941**	86,150
TOTAL EQUITY		**653,965**	528,946

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the 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 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 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in equity-accounted investees.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

– investments in debt and equity securities; and

– derivative financial instruments

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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.83%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 ***US$'000***
Operating lease commitments at 31 December 2018	**55,458**
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(2,305)**
	53,153
Less: total future interest expenses	**(7,784)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	**45,369**
Add: finance lease liabilities recognised as at 31 December 2018	**3,868**
Total lease liabilities recognised at 1 January 2019	**49,237**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018, except for a lease of property in France, when the right-of-use assets have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16).

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Trade and other payables", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	**Capitalisation of operating lease contracts**	**Reclassification**	**Carrying amount at 1 January 2019**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:				
Other property, plant and equipment	336,263	59,671	–	395,934
Land use right	15,087	(15,087)	–	–
Total non-current assets	719,756	44,584	–	764,340
Trade and other receivables	245,143	–	(90)	245,053
Total current assets	554,691	–	(90)	554,601
Trade and other payables (current)	(236,813)	–	1,250	(235,563)
Lease liabilities (current)	–	(9,456)	(1,160)	(10,616)
Current liabilities	(440,390)	(9,456)	90	(449,756)
Net current assets	114,301	(9,456)	–	104,845
Total assets less current liabilities	834,057	35,128	–	869,185
Other payables (non-current)	(93,625)	–	2,708	(90,917)
Lease liabilities (non-current)	–	(35,992)	(2,708)	(38,700)
Total non-current liabilities	(305,111)	(35,992)	–	(341,103)
Net assets	528,946	(864)	–	528,082
Reserve	(442,780)	648	–	(442,132)
Total equity attributable to equity shareholders of the Company	(442,796)	648	–	(442,148)
Non-controlling interests	(86,150)	216	–	(85,934)
Total equity	(528,946)	864	–	(528,082)

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight- line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A)	**Add back: HKFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C)**	**Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under HKAS 17
	US$'000	***US$'000***	***US$'000***	***US$'000***	*US$'000*
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**28,457**	**10,728**	**(10,829)**	**28,356**	52,054
Finance costs	**(22,698)**	**2,469**	**–**	**(20,229)**	(21,020)
Profit before taxation	**63,208**	**13,197**	**(10,829)**	**65,576**	32,929
Profit for the year	**29,009**	**13,713**	**(10,829)**	**31,893**	18,381

	2019			2018
	Amounts reported under HKFRS 16 (A)	**Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B)**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)**	Compared to amounts reported for 2018 under HKAS 17
	US$'000	***US$'000***	***US$'000***	*US$'000*
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**50,652**	**(10,188)**	**40,464**	100,328
Net cash generated from operating activities	**26,451**	**(10,188)**	**16,263**	84,130
Capital element of lease rentals paid	**(8,479)**	**7,719**	**(760)**	–
Interest element of lease rentals paid	**(2,469)**	**2,469**	**–**	–
Net cash generated from financing activities	**207,361**	**10,188**	**217,549**	204,539

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash (used in)/generated from financing activities as if HKAS 17 still applied.

d. Lessor accounting

The Group leases out the investment properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

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 cardiac rhythm management business ("CRM business") acquired in April 2018. Further details regarding the Group's principal 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:

	2019	2018
	US$'000	*US$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of medical devices	**779,557**	661,162
Revenue from post-sales services	**13,701**	7,868
	793,258	669,030
Revenue from other sources		
Gross rentals from investment properties	**235**	460
	793,493	669,490

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 2019 and 2018, 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 2019, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is US$29,097,000 (2018: 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 a number of reportable segments. The Group presented the surgical robot and heart valve business segments as two reportable segments, which were previously included in the cardiovascular devices business segment. The Group excluded results from a few of segments below the quantitative thresholds from reportable segments since 2019 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.

- Cardiovascular devices business: sales, manufacture, research and development of cardiovascular devices, such as drug eluting stents.
- Orthopedics devices business: sales, manufacture, research and development of orthopedics devices.
- CRM business: sales, manufacture, research and development of cardiac rhythm management devices.
- Endovascular devices business: sales, manufacture, research and development of endovascular devices.
- Neurovascular devices business: sales, manufacture, research and development of neurovascular devices.
- Surgical devices business: sales, manufacture, research and development of surgical devices.
- Heart valve business: sales, manufacture, research and development of heart valve devices.
- Surgical robot devices business: sales, manufacture, research and development of surgical robot devices.

(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, other than reporting inter-segment sales, 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 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 2019 and 2018 is set out below.

	2019									
	Cardiovascular devices business *US$'000*	Orthopedics devices business *US$'000*	CRM business# *US$'000*	Endovascular devices business *US$'000*	Neurovascular devices business *US$'000*	Surgical devices business *US$'000*	Heart valve business *US$'000*	Surgical robot devices business *US$'000*	Others* *US$'000*	Total *US$'000*
Disaggregated by timing of revenue recognition										
Point in time-sales of medical devices	264,607	232,232	195,324	48,527	27,631	4,695	3,119	–	3,422	779.557
Over time-post-sales services	–	–	13,701	–	–	–	–	–	–	13,701
Over time-rental income	26	209	–	–	–	–	–	–	–	235
	264,633	232,441	209,025	48,527	27,631	4,695	3,119	–	3,422	793,493
Reportable segment net profit/ (loss)	111,357	(30,794)	(54,837)	20,465	5,050	(5,192)	(20,962)	(6,735)	(11,877)	6,475
Interest income from bank deposits and structured deposits	541	56	5	1,351	15	6	9	98	5	2,086
Interest expense	212	5,088	5,512	159	242	6	1,389	–	55	12,663
Depreciation and amortisation for the year	14,907	26,539	13,257	2,012	1,587	842	1,643	187	208	61,182
Income tax	18,869	976	(1,224)	3,574	1,120	125	–	–	–	23,440
Increase/(decrease) of inventory provision	1,116	2,632	(2,166)	219	373	200	–	–	–	2,374
Provision for/(reversal of) impairment of:										
– Property, plant and equipment	418	32	–	–	–	–	–	–	–	450
– Trade and other receivables	123	(266)	–	82	–	–	–	–	–	(61)
Reportable segment assets	506,566	420,770	341,016	168,139	50,996	33,710	76,638	15,814	47,316	1,660,965
Additions to non-current segment assets during the year	45,925	38,051	13,085	3,887	9,669	2,290	8,680	2,536	236	124,359
Reportable segment liabilities	111,886	226,645	212,613	16,109	17,590	19,787	57,392	3,981	397	666,400

	2018 (Re-presented) *(Note)*									
	Cardiovascular devices business	Orthopedics devices business	CRM business[#]	Endovascular devices business	Neurovascular devices business	Surgical devices business	Heart valve business	Surgical robot devices business	Others*	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Disaggregated by timing of revenue recognition										
Point in time-sales of medical devices	202,487	236,279	150,508	34,975	18,297	5,925	–	–	12,691	661,162
Over time-post-sales services	–	–	7,868	–	–	–	–	–	–	7,868
Over time-rental income	330	–	–	–	130	–	–	–	–	460
	202,817	236,279	158,376	34,975	18,427	5,925	–	–	12,691	669,490
Reportable segment net profit/ (loss)	85,198	(13,081)	(24,205)	13,521	4,100	(6,595)	(9,084)	(4,605)	(1,253)	43,996
Interest income from bank deposits	398	56	16	28	7	19	137	4	16	681
Interest expense	3	2,684	1,935	–	36	–	–	–	225	4,883
Depreciation and amortisation for the year	12,026	21,470	4,953	1,245	1,037	1,089	233	83	1,099	43,235
Income tax	11,039	1,132	(819)	2,898	232	63	–	–	–	14,545
Increase/(decrease) of inventory provision	554	2,411	3,565	260	152	213	–	–	(25)	7,130
Provision for impairment of:										
– Property, plant and equipment	900	–	–	–	–	–	–	–	–	900
– Intangible assets	–	754	–	–	–	1,683	–	–	–	2,437
– Trade and other receivables	800	325	–	10	–	371	–	–	(21)	1,485
Reportable segment assets	433,955	426,403	334,045	39,170	27,854	28,551	55,743	7,819	25,032	1,378,572
Additions to non-current segment assets during the year	37,456	43,614	7,300	3,751	4,902	523	21,557	3,031	1,250	123,384
Reportable segment liabilities	125,379	241,423	138,310	7,985	8,068	18,921	2,950	7,565	10,457	561,058

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

* Revenues and results from segments below the quantitative thresholds are mainly attributable to electrophysiology devices business, which was disposed during the year ended 31 December 2019 (note 13(a)), diabetes and endocrinal devices business, etc. None of those segments individually met any of the quantitative thresholds for reportable segments.

[#] The Group completed the acquisition of the CRM business on 30 April 2018. 2019 is the first full year of CRM business operated by the Group.

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

	2019	2018 (Re-presented) *(Note)*
	US$'000	*US$'000*
Profit or loss		
Reportable segment net profit	**6,475**	43,996
Share awards scheme	**(2,993)**	(5,317)
Other equity-settled share-based payment expenses	**(7,258)**	(3,764)
Unallocated exchange gain	**1,385**	9,467
Gain on disposal of subsidiaries, net of tax *(note 13(a))*	**55,843**	–
Gain on deemed disposal of a joint venture	**–**	4,133
Unallocated expenses, net	**(24,443)**	(30,134)
Consolidated profit for the year	**29,009**	18,381
Assets		
Reportable segment assets	**1,660,965**	1,378,572
Elimination of inter-segment receivables	**(89,517)**	(135,042)
Unallocated corporate assets:		
– Cash and cash equivalents	**20,850**	13,364
– Other receivables	**–**	11,900
– Investments in debt and equity securities	**5,527**	4,691
– Others	**126**	962
Consolidated total assets	**1,597,951**	1,274,447

	2019	2018 (Re-presented) (Note)
	US$'000	*US$'000*
Liabilities		
Reportable segment liabilities	**666,400**	561,058
Elimination of inter-segment payables	**(89,517)**	(134,951)
Derivative financial liabilities	**11,162**	10,640
Convertible bonds	**83,107**	90,405
Interest-bearing borrowings	**169,142**	138,637
Share repurchase obligations (note 11)	**89,701**	73,449
Unallocated corporate liabilities	**13,991**	6,263
Consolidated total liabilities	**943,986**	745,501

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

(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 investment property, other property, plant and equipment, land use rights, intangible assets, goodwill and investments in equity-accounted investees ("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, 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 equity-accounted investees.

Revenue from external customers

	2019	2018
	US$'000	*US$'000*
The PRC (country of domicile)	**361,242**	281,871
North America	**103,973**	109,536
Europe	**241,750**	192,652
Asia (excluding the PRC)	**56,338**	65,615
South America	**13,783**	11,648
Others	**16,407**	8,168
	432,251	387,619
	793,493	669,490

Specified non-current assets

	2019	2018 (Note)
	US$'000	*US$'000*
The PRC (country of domicile)	**458,072**	375,757
North America	**121,378**	120,705
Europe	**176,876**	146,756
Asia (excluding the PRC)	**13,971**	5,477
South America	**4,225**	5,659
	316,450	278,597
	774,522	654,354

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

5 Other net income

	2019	2018
	US$'000	*US$'000*
Government grants *(Note)*	**16,345**	10,085
Interest income on bank deposits and structured deposits	**2,674**	1,018
Interest income on financial assets carried at amortised cost	**867**	763
Net gain/(loss) on disposal of property, plant and equipment	**594**	(727)
Net foreign exchange gain	**176**	9,602
Net realised and unrealised losses on financial instruments carried at FVPL	**(2,005)**	(6,611)
Gain on modification of the convertible bonds	**1,012**	–
Others	**(996)**	(334)
	18,667	13,796

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" included unconditional grants of US$15,108,000 (2018: US$7,620,000) to compensate the Group for research expenses already incurred and conditional grants of US$1,237,000 (2018: US$2,465,000) transferred from deferred income as the conditions attaching to the grant were complied with during the year ended 31 December 2019.

6 Profit before taxation

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

	2019	2018
		(Note)
	US$'000	*US$'000*
(a) Finance costs		
Interest on the convertible bonds	**2,902**	8,985
Interest on other interest-bearing borrowings	**13,487**	9,593
Interest on preference shares issued by a subsidiary *(note 11)*	**1,099**	–
Interest on lease liabilities	**2,469**	–
Others	**1,372**	1,208
Total interest expense on financial liabilities not at fair value through profit or loss	**21,329**	19,786
Interest accrued on advance payments from customers	**1,761**	1,676
Less: Interest expense capitalised into properties under development*	**(392)**	(442)
	22,698	21,020

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

* During 2019, the borrowing costs have been capitalised at a rate of 4.7% (2018: 4.7%) per annum.

	2019	2018
	US$'000	*US$'000*
(b) Staff costs		
Contributions to defined contribution retirement plans	**18,916**	15,541
Expenses recognised in respect of defined benefit retirement plans	**381**	245
Equity-settled share-based payment expenses	**18,526**	9,890
Cash-settled share-based payment expenses	**541**	3,917
Salaries, wages and other benefits	**284,959**	222,986
	323,323	252,579

(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 provincial governments for its employees. The Group is required to make contributions to the retirement plans at approximately 13% to 16% of the eligible employees' salaries for the year ended 31 December 2019.

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 EUR8,075,000 (equivalent to US$9,046,000) as at 31 December 2019 (31 December 2018: EUR7,702,000 (equivalent to US$8,806,000)), with actuarial loss of US$786,000 being recorded in other comprehensive income for the year ended 31 December 2019 (31 December 2018: gain of US$272,000).

	2019	2018 (Note)
	US$'000	*US$'000*
(c) Other items		
Amortisation of intangible assets[#]	**9,770**	8,178
Depreciation charge[#]		
– investment properties, and other property, plant and equipment*	**40,978**	34,875
– right-of-use assets*	**11,083**	372
Less: Amounts capitalised as development costs	**(654)**	(1,049)
	51,407	34,198
Total minimum lease payments for leases previously classified as operating leases under HKAS 17*[#]	**–**	12,936
(Reversal of)/provision of impairment of:		
– trade and other receivables	**(61)**	1,485
– property, plant and equipment	**450**	900
– intangible assets	**–**	2,437
	389	4,822
Research and development costs (other than amortisation costs of intangible assets)	**166,625**	123,886
Less: Costs capitalised into intangible assets	**(18,960)**	(22,076)
	147,665	101,810
Rental income from investment properties	**235**	460
Cost of inventories[#]	**244,389**	211,148

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

Cost of inventories includes US$98,792,000 (2018: US$72,471,000) relating to staff costs, depreciation and amortisation expenses, lease expenses, which amount is also included in the respective total amounts disclosed separately above 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:

	2019	2018
	US$'000	*US$'000*
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**32,719**	14,957
Under/(over)-provision in respect of prior years	**579**	(326)
	33,298	14,631
Current tax – other jurisdictions		
Provision for the year	**2,580**	2,244
Over-provision in respect of prior years	**(65)**	(84)
	2,515	2,160
	35,813	16,791
Deferred tax		
Origination and reversal of temporary differences	**(1,614)**	(2,243)
	34,199	14,548

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% (2018: 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 9 entities entitled to a preferential income tax rate of 15% as they are certified as "High and New Technology Enterprise" ("HNTE").

The additional deduction of research and development expenditures have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018.

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

In the US, the Group is taxed at a federal corporate tax rate of 21% plus various state tax rates, 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 Group has net operating loss in the US for federal and state tax purposes that may be carried forward indefinitely. 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:

	2019	2018
	US$'000	*US$'000*
Profit before taxation	**63,208**	32,929
Notional tax on profit before taxation, calculated at the rates applicable to profit in the countries concerned	**41,478**	16,267
Effect of the PRC preferential tax rate	**(17,348)**	(8,965)
Effect of other non-deductible expenses	**4,073**	5,562
Effect of additional deduction on research and development expenses	**(2,778)**	(3,646)
Effect of tax losses not recognised	**20,369**	7,676
Effect of non-taxable revenue	**(9,832)**	(962)
Effect of utilisation of temporary differences not recognised in previous years	**(3,366)**	(656)
Withholding tax on profit distributions	**287**	806
Under/(over)-provision in respect of prior years	**514**	(410)
Others	**802**	(1,124)
Actual tax expenses	**34,199**	14,548

8 Capital, reserves and dividends

(a) Dividends

At the meeting of the board of directors held on 27 March 2019, the board of directors recommended the payment of a final dividend of HK2.9 cents (2018: HK2.5 cents) per ordinary share of the Company for the year ended 31 December 2018 (the "2018 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 2018 Final Dividend totaling US$5,951,000 was approved at the annual general meeting of the Company held on 13 June 2019 and is payable to shareholders of the Company whose names appeared on the register of members of the Company on 21 June 2019.

The Company paid cash dividends to shareholders of the Company totalling US$3,430,000 (2018: US$3,582,000) and issued 3,896,181 ordinary shares (2018: 843,571 ordinary shares) of the Company at an issue price of HK$5.047 per share (2018 HK$9.994) as the 2018 Final Dividend. Accordingly, US$2,521,000 (2018: US$1,075,000) was credited to share premium.

After the period end, the directors of the Company proposed a final dividend for the year ended 31 December 2019 of HK5.3 cents per ordinary share, which has not been recognised as a liability at 31 December 2019.

(b) Share capital

(i) Ordinary shares

	2019		2018	
	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	**1,602,326**	**16**	1,457,063	14
Shares issued under share option plans	**5,210**	**–**	7,200	1
Shares issued in lieu of cash dividends	**3,896**	**–**	844	–
Shares issued in respect of conversion of convertible notes	**11,346**	**–**	137,219	1
At 31 December	**1,622,778**	**16**	1,602,326	16

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 2019	7,395,000	0.97	0.93	7,053
April 2019	500,000	0.94	0.94	470
May 2019	9,526,000	0.95	0.83	8,510
June 2019	2,005,000	0.82	0.80	1,599
	19,426,000			17,632

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

(iii) Shares issued under the share option plans

During the year ended 31 December 2019, 5,210,600 (2018: 7,200,000) share options were exercised to subscribe for 5,210,600 (2018: 7,200,000) ordinary shares in the Company at a total consideration of US$2,607,000 (2018: US$2,954,000), of which Nil (2018: US$1,000) and US$2,607,000 (2018: US$2,953,000) was credited to share capital and share premium, respectively. As at 31 December 2019, the Group received cash consideration of US$1,854,000. Remaining consideration of US$753,000 was fully received in January 2020. In addition, an amount of US$874,000 (2018: US$1,492,000) was transferred from the capital reserve to the share premium account.

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$46,281,000 (2018: US$23,913,000) and the weighted average number of ordinary shares of 1,583,651,000 shares (2018: 1,468,985,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2019	2018
	'000	*'000*
Issued ordinary shares at 1 January	**1,602,326**	1,457,063
Effect of issue of shares in lieu of cash dividends	**1,473**	319
Effect of share options exercised	**1,516**	5,158
Effect of shares under share award scheme	**(24,651)**	(13,260)
Effect of the conversion of the convertible bonds issued by the Company	**2,987**	19,705
Weighted average number of ordinary shares at 31 December	**1,583,651**	1,468,985

(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$33,245,000 (2018: US$19,956,000) and the weighted average number of ordinary shares of 1,674,874,000 shares (2018: 1,560,667,000 shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme and a put option granted to Sino Rhythm Limited ("SRL") that may be settled in ordinary shares of the Company, calculated as follows.

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

	2019	2018
	US$'000	*US$'000*
Profit attributable to ordinary equity shareholders	**46,281**	23,913
Effect of deemed exercise of put option granted to SRL in respect of share repurchase obligation	**(13,036)**	(3,957)
Profit attributable to ordinary equity shareholders (diluted)	**33,245**	19,956

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

	2019	2018
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,583,651**	1,468,985
Effect of deemed exercise of put option granted to SRL in respect of share repurchase obligation	**53,247**	51,672
Effect of deemed issue of shares under the Company's share option scheme	**37,976**	40,010
Weighted average number of ordinary shares (diluted) at 31 December	**1,674,874**	1,560,667

The calculation of diluted earnings per share amount for the year ended 31 December 2019 has not included the potential effect of the deemed conversion of the convertible bonds and Series C convertible preferred shares issued by a subsidiary during 2019 (see note 13(c)) into ordinary shares during the year, as it has an anti-dilutive effect on the basic earnings per share amount for the year.

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

10 Trade and other receivables

	31 December 2019	31 December 2018
	US$'000	*US$'000*
Trade debtors and bills receivable due from:		
– third party customers	**216,489**	189,140
– related parties	**3,849**	1,133
	220,338	190,273
Less: Allowance for doubtful debts	**(9,680)**	(10,607)
	210,658	179,666
Advances to Witney Global Limited *(Note)*	**–**	11,900
Other debtors	**31,013**	31,451
Income tax recoverable	**3,765**	9,911
Deposits and prepayments	**21,353**	12,215
	266,789	245,143

Note: The Company made advances of US$11,900,000 to Witney Global Limited ("Witney"), which also made investments into two entities in which the Group has equity interests in 2018. The receivables have been fully repaid in 2019.

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

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable based on the invoice date (or date of revenue recognition, if earlier) and net of allowance, is as follows:

	2019	2018
	US$'000	*US$'000*
Within 1 month	**98,515**	78,445
1 to 3 months	**82,625**	67,487
3 to 12 months	**23,419**	22,480
More than 12 months	**6,099**	11,254
	210,658	179,666

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

11 Trade and other payables

	31 December 2019	31 December 2018
	US$'000	*US$'000*
Current		
Trade payables due to third party suppliers (i)	**90,120**	105,016
Dividends payable to ordinary shareholders	**83**	89
Advances received in relation to a proposed disposal of partial interests in a subsidiary	**–**	6,358
Share repurchase obligations (ii)	**46,099**	–
Other payables and accrued charges	**147,478**	125,350
	283,780	236,813
Non-current		
Share repurchase obligations (ii)	**89,701**	73,449
Defined benefit retirement obligation *(note 5(b)(ii))*	**9,046**	8,806
Other payables	**18,042**	11,370
	116,789	93,625

Note i:

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

	31 December 2019	31 December 2018
	US$'000	*US$'000*
Within 1 month	**52,173**	43,514
Over 1 month but within 3 months	**15,495**	28,750
Over 3 months but within 6 months	**1,921**	757
Over 6 months but within 1 year	**2,862**	1,098
Over 1 year	**17,669**	30,897
	90,120	105,016

Note ii:

After the completion of a reorganisation in 2019 (see note 13(c)), the investors (the "Series B Investors") previously invested in Shanghai MicroPort CardioFlow Medtech Co.,Ltd. ("MP CardioFlow Shanghai") held 24,212,383 voting redeemable series B preferred shares (the "Series B Preferred Shares") in MicroPort CardioFlow Medtech Corporation ("MP CardioFlow Cayman", a subsidiary of the Group and the new holding company of the heart valve business).

In 2019, Qianyi Investment I L.P. (the "Series C Investor") subscribed for 11,250,000 voting redeemable series C preferred shares (the "Series C Preferred Shares") of MP CardioFlow Cayman.

Memorandum of association of MP CardioFlow Cayman regulates that upon the occurrence of certain specified events:

(i) the Series B Investors would have the right to ask Shanghai MicroPort Limited (the controlling shareholder of MP CardioFlow Cayman and a wholly-owned subsidiary of the Company) or other entity controlled by the Company to repurchase their Series B Preferred Shares in the form of cash; and

(ii) the Series C Investor would have the right to ask MP CardioFlow Cayman to repurchase its Series C Preferred Shares in the form of cash.

The redemption price equals to the original investment amounts of these investors plus applicable annual return of 15% or 12%, calculated on a compound basis.

The Group recorded the present value of the redemption price of the Series B Preferred Shares and the Series C Preferred Shares as payables under the amortised cost method.

During 2019, the change in the amortised costs of (a) the Series B Preferred Shares of US$16,469,000 (2018: US$5,129,000) has been recognised directly in equity as the Series B Preferred Shares were treated as a transaction within the shareholders of MP CardioFlow Cayman in their capacity as equity holders; and (b) the Series C Preferred Shares of US$1,099,000 has been recognised in profit or loss as the existence of obligation of repurchase by MP CardioFlow Cayman itself.

As at 31 December 2019, the balance of the Series B Preferred Shares and the Series C Preferred Shares were US$89,701,000 and US$46,099,000, respectively.

12 Interest-bearing borrowings

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

	31 December 2019	31 December 2018
	US$'000	*US$'000*
Within 1 year or on demand	**32,092**	100,901
After 1 year but within 2 years	**57,606**	8,810
After 2 years but within 5 years	**230,501**	129,019
	288,107	137,829
	320,199	238,730

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

	31 December 2019	31 December 2018
	US$'000	*US$'000*
Bank loans		
– secured	**127,602**	118,080
– unsecured	**192,597**	120,650
	320,199	238,730

At 31 December 2019, the bank facilities drawn down by the Group of US$43,753,000 (31 December 2018: US$29,295,000) were secured by pledged deposits, right-of-use assets and buildings held for own use with net book value of US$1,147,000, US$4,010,000 and US$51,090,000, respectively (31 December 2018: pledged deposits of US$2,841,000, right- of-use assets of US$4,172,000 and buildings held for own use of US$55,288,000, respectively).

At 31 December 2019, a bank loan of US$83,849,000 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 secured bears an interest rate of London Interbank Offered Rate ("LIBOR") plus 3.5% per annum and shall be repaid by instalments within five years since 30 April 2018.

Part of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities had been breached.

13 Disposals

(a) MP EP

In February 2019, Shanghai MicroPort EP Medtech Co.,Ltd. ("MP EP") together with its original shareholders 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"), pursuant to which, Jiaxing Huajie agreed to (i) subscribe for 16,477,942 newly issued shares of MP EP at a cash consideration of RMB200,000,000; and (ii) acquire 18,362,194 shares of MP EP from the Group at a cash consideration of RMB222,870,000 (the "EP Disposal").

Upon the completion of the EP Disposal, the Group's equity interest in MP EP was decreased from 81.93% as at 31 December 2018 to 45.10%.

The transaction was accounted for as a deemed disposal of MP EP with a gain of US$63,105,000 recognised in profit or loss for the year ended 31 December 2019 and the Group's remaining interests in MP EP recognised as an investment in equity-accounted investee. A reconciliation of such gain of disposal of MP EP is set out below:

	As at the date of the disposal *US$'000*
Cash consideration *(i)*	33,099
Fair value of remaining equity interests in MP EP	37,343
	70,442
Less: Net assets of MP EP	(8,955)
Add: Non-controlling interests	1,618
Gain on disposal of MP EP *(ii)*	63,105

Note i: Net proceeds from the EP Disposal, net of cash balance of MP EP was approximately US$31,028,000.

Note ii: Gain on disposal of MP EP is subject to the PRC CIT amounting to approximately US$7,262,000 based on the consideration received by the Group and tax computation basis of the transferred equity interest of MP EP by the Group.

(b) MP Endo

In July 2019, Shanghai MicroPort Endovascular Medtech Co.,Ltd. ("MP Endo") was separately listed on the science and technology innovation board of the Shanghai Stock Exchange (the "Separate Listing"). MP Endo issued a total of 18,000,000 A shares at an offer price of RMB46.23 per share.

The Group retained control over MP Endo after the completion of the Separate Listing as the Group continues to be the single major shareholder of MP Endo and holds relatively larger voting rights than other dispersed public shareholders in aggregate, despite the fact that the Group's equity interest in this entity was 46.34% as at 31 December 2019.

The amount of US$42,551,000, being the difference between the net proceeds received from the Separate Listing of US$105,992,000 and the carrying amount of net assets in the proportion of the deemed disposed equity interests in MP Endo as at the date of disposal, was credited to capital reserve of the Group.

(c) MP CardioFlow Cayman

In 2019, the Group completed a reorganisation of shareholding in the heart valve business (the "Reorganisation"). The Reorganisation primarily involved inserting certain investment holding companies with no substantive operations. MP CardioFlow Cayman became the holding company of the heart valve business and MP CardioFlow Shanghai became a wholly-owned subsidiary of MP CardioFlow Cayman. The Group and other original shareholders of MP CardioFlow Shanghai directly or indirectly held voting shares of MP CardioFlow Cayman in the same proportion of their shareholding in MP CardioFlow Shanghai before the Reorganisation. The Reorganisation did not have a material impact on the Group's profit or loss.

In 2019, the Series C Investor invested in MP CardioFlow Cayman at a cash consideration of US$45,000,000.

As at 31 December 2019, MP CardioFlow Cayman issued a total of 98,750,000 voting shares, of which, 56,625,716 were ordinary shares held by the Group, 24,212,383 were Series B Preferred Shares held by the Series B Investors, 11,250,000 were Series C Preferred Shares held by the Series C Investor and remaining were ordinary shares beneficially held by the other original shareholders of MP CardioFlow Shanghai.

As at 31 December 2019, the Group held approximately 57.34% of voting rights in MP CardioFlow Cayman and its subsidiaries and retained control over MP CardioFlow Cayman.

BUSINESS OVERVIEW

Overview

In 2019, demand for medical device products and services remained strong with the increasingly obvious trend of an ageing population and the continuing improvements to overall income and living standards. The global medical device industry maintained steady growth as a whole. In the domestic market, the government further implemented healthcare system reform and introduced a number of major policies and measures for medical consumables, which included unification of classification and coding of high-value medical consumables for national medical insurance by establishing identification system rules for medical devices, further improvement of high-value medical consumables pricing system and enhancement of whole process supervision and management for high-value medical consumables by optimizing systems, polices and innovating methods. In addition, the National Healthcare Security Administration promoted diagnosis related groups (DRGs) pilot program. Initial design of such program was basically completed with the pilot cities identified. The National Health Commission also identified the pilot cities for integrated health care system which aimed to form synergy of medical insurance and medical reform. Under the guidance of the above reform plans, major provinces and cities have successively introduced centralized high-value medical consumables procurement policies, resulting in the downward prices in end markets. However, a series of innovative supporting measures will help reduce operating costs and in the long-run, industrial integration will be accelerated by establishing reasonable pricing mechanism to eliminate less competitive counterparties, which will provide greater market opportunities and a healthier development environment for industry leaders engaged in innovative and large-scale production and thus leading to high-quality development of the industry. In the international market, registration threshold in certain countries is increasing and the international trading environment is getting increasingly complicated. These challenges required globalized resources allocation and managerial experience of the Company to cope with the business environment and regulatory changes in the international market.

As of 31 December 2019, the Group has eight major business segments, being cardiovascular devices, orthopedics devices, CRM business, endovascular devices, neurovascular devices, heart valve business, surgical devices and surgical robot business, offering more than 300 varieties of medical devices.

In 2019, in terms of sales, the Group continued to intensively cultivate the domestic market, expand its market coverage while enriching overseas product portfolio to stably implement globalized strategies. In terms of research and development, a number of key products in each segment have been approved for launching which accelerated the progress of domestic manufacturing and thus creating new opportunities for growth. For the year ended 31 December 2019, the Group recorded revenue of US$793.5 million, representing an increase of 18.5% in US$ or 22.0% (excluding foreign exchange impact) as compared to previous year. Net profit amounted to US$29.0 million (profit attributable to equity shareholders of the Company: US$46.3 million).

For the year ended 31 December 2019, the Group derived 33.4% of its revenue from the cardiovascular devices, 29.3% from the orthopedics devices, 26.3% from the CRM business, 6.1% from the endovascular devices, 3.5% from the neurovascular devices, 0.6% from the surgical devices and 0.4% from the heart valve business. In 2019, the Group's various businesses – including cardiovascular, endovascular and neurovascular – continued to maintain leading market positions with substantial growth rate. The heart valve business recorded revenue for the first year after obtaining approval in July 2019.

Cardiovascular Devices Business

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

With the increasingly obvious trend of an ageing population in the PRC, the overall cardiovascular diseases incidence increased continuously. With the significant leap in income level, the society's affordability to medical expenses strengthened as well. The quantity and quality of interventional therapy for coronary artery disease enhanced with stable development in recent years. In terms of product consumption, the PRC is now one of the countries with the most cases of PCI. In terms of the number of stents inserted, interventional therapy indications and devices use are deemed reasonable. In addition, along with the implementation of the national hierarchical diagnosis and treatment system, the capabilities of PCI gradually improved in hospitals at county level which are playing an increasingly important role in coronary heart disease treatment, which greatly increased patient accessibility.

The Group has cultivated its cardiovascular devices business for over two decades. With high-quality products, the Group has occupied the leading position in the PRC market since the products were launched and has reached nearly 30 countries and regions around the globe. Currently, four drug eluting stents (DES) and four balloon products are in sale. New sustainable development drivers were brought with continuous addition of new products which gradually structured a multiple layered product mix. For the year ended 31 December 2019, the Group's cardiovascular devices business recorded revenue of US$264.6 million, representing a 35.5% increase (excluding the foreign exchange impact) as compared to the previous year. Domestically, revenue of the Group's DES increased by 32.8% (excluding the foreign exchange impact) as compared to the previous year, in which, revenue from the Firehawk™ Rapamycin Target Eluting Coronary Stent System ("Firehawk™") increased by 51.6% (excluding the foreign exchange impact) as compared to the previous year and revenue from the Firebird2™ Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firebird2™") increased by 22.9% (excluding the foreign exchange impact) as compared to the previous year. In addition to the rapid growth of the domestic market and the market recognition of the world-class Firebird2™ stent and the cost-effective Firebird™ stent, the centralized bidding also promoted sales growth. The number of hospitals covered with DES exceeded 2,000 for the first time in 2019, among which, the hospitals covered by Firehawk™ increased by 41% as compared to the previous year and that by Firebird2™ increased by 18% as compared to the previous year. Furthermore, the Group has newly developed 256 county-level hospitals during the year. In terms of products, the FireCondor™ Rapamycin Target Eluting Coronary Stent System (renamed as FireCondor™ from Firehawk Nova™) with improved delivery system has been approved for launch and was applied for implantation in 2019, which will be the new growth momentum for such segment.

In 2019, the overseas result for DES was remarkable, with sales in 25 countries or regions, and registration certificates obtained in 13 countries or regions. For the year ended 31 December 2019, overseas DES revenue amounted to US$16.6 million, representing an increase of 72.4% (excluding the foreign exchange impact) as compared to the previous year and a record high. In which, overseas revenue of Firebird2™ increased by 186.9% (excluding the foreign exchange impact) as compared to the previous year while that of Firehawk™ increased by 54.6% (excluding the foreign exchange impact) as compared to the previous year. Firehawk™ was included in the national medical insurance of France and Belgium. European business was further expanded as Firehawk™ has been sold in various major European countries. Moreover, the Group has submitted registration application for Firehawk™ stent to Pharmaceuticals and Medical Devices Agency of Japan as an active move of expansion in global mainstream markets.

The balloon products business of the Group maintained high growth rate as its global revenue increased by 54.5% (excluding the foreign exchange impact) as compared to the previous year, which marked 2019 as the fourth consecutive year with a growth rate of over 40%. In the domestic market, three balloon products covered more than 600 hospitals, with a year-on-year revenue increase of 50.6% as compared to the previous year. The Firefighter™ PTCA Balloon Catheter was highly appraised by industry experts for its outstanding performance after its launch. Over 70 hospitals were newly developed during the year. Furthermore, the centralized bidding of Pioneer™ PTCA Balloon Catheter will promote clinical application in relevant regions. In overseas market, four balloon products have obtained registration approval in 21 countries and regions, with 12 new countries and regions added this year.

Orthopedics Devices Business

The orthopedics devices business offers an extensive product range that includes reconstructive joints, spine and trauma, and other professional implants and equipment. Additionally, the orthopedics Global Supply Center ("GSC") established in 2015 provides centralized purchasing and logistics 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 2019, the Group improved its global portfolio of orthopedics implants and instruments by effective integration of global research and development teams and resources. Meanwhile, the Group strengthened its brand-building and marketing of product concept, and accelerated its domestic manufacturing processes to provide more product options for physicians and patients. For the year ended 31 December 2019, the Group's orthopedics devices business recorded revenue of US$232.4 million, representing a slight year-on-year decline of 0.2% (excluding the foreign exchange impact).

The international (non-China) orthopedics business recorded revenue of US$206.0 million for the year ended 31 December 2019, representing a 4.7% decrease (excluding the foreign exchange impact) as compared to the previous year. Such decrease was mainly due to the prolonged impact of the global downward prices and the loss of a major US distributor in 2018. Regionally, despite the fact that revenue from the US decreased by 7.1% as compared to the previous year, the business resumed to stability in the second half of the year as sales team initiated cooperation with new distributors and actively expanded customers. Compared to the significant drop of revenue in the first half of the year, the revenue in the second half of the year was basically flat year-on-year and recorded an increase of 5.4% compared to the first half of the year. Revenue from Japan achieved a slight increase in 2019. In 2019, the Group organised and participated in a range of well-known international academic events, improved physician training, and worked with industry experts and key opinion leaders to conduct multiple clinical trial projects which will further verify the effectiveness of SuperPATH™ surgery and medial-pivot knee technology under the concept of accelerated recovery. In 2019, the Group also obtained approval to launch a number of products in overseas regions. The new generation Evolution™ NitrX™ Medial-Pivot Knee applicable for patients with allergies to certain metallic ions was approved for launching in the US and Canada. The registration application of such product was submitted in Europe to imbue new momentum to the development of the segment.

For the year ended 31 December 2019, the PRC orthopedics business of the Group recorded a revenue of US$26.5 million, representing 57.1% growth (excluding the foreign exchange impact) as compared to the previous year. This was mainly due to the rapid sales growth in the imported joint business of 37.8%, which greatly exceeded the market average growth rate. With the superiority of the product concept, the PRC sales team implemented high-frequency marketing strategy as well as product training which aimed to expand brand influence. The imported joint products gained recognition from various hospitals with steady increase in hospital coverage rate and rapid growth of implant volume. Two domestic Aspiration™ Medial Stability Total Knee Replacement Systems and the SoSuperior™ Medial Stability Total Knee Replacement System successively obtained approvals for launch in 2019. Diversified product portfolio enhanced comprehensive competitiveness and become a new momentum for segment growth. In addition, the expansion of sales platforms, strengthening of clinical promotion, acceleration of hospital access, continuous upgrades of existing products and successive launches of new product led to continued rapid increase in revenue from the spine and trauma business, as well as an improved gross profit margin in 2019. The orthopedics instruments business effectively promoted the sales of domestic orthopedics implants by providing high quality and useful instruments. Instruments costs were greatly saved by accelerating the manufacturing localization of overseas orthopedics tools. The Global Supply Center (GSC) continued to operate steadily, supporting the development of an international orthopedics business through the global allocation of instruments and reduction of procurement costs.

Cardiac Rhythm Management Business

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

2019 is the first full financial year after the Group's acquisition of the CRM business. In 2019, the Group adjusted its overseas marketing strategies, improved the global market planning and cooperated with domestic and overseas R&D teams to advance product development. In the domestic market, Rega™, the Group's self-developed pacemaker, continued to drive robust business development. For the year ended 31 December 2019, the CRM business realized revenue of US$209.0 million.

In 2019, the international (non-China) CRM business adjusted its market strategy and continued to invest in R&D to optimize its product portfolio and achieve products upgrade. For the year ended 31 December 2019, revenue from the international (non-China) CRM business was US$201.1 million. In the Japan market, the Group has basically completed the strategic transformation from its original distributor model to a direct managed sales network. The 1.5T and 3T magnetic resonance compatible pacemaker ENO™ was launched in Japan and completed the first local implantation, and the Japan business steadily advanced. In the European market, the new generation of the world's smallest 1.5T and 3T magnetic resonance compatible pacemakers – OTO™, ENO™ and TEO™ – were widely used by hospitals due to its excellent quality and customer satisfaction further enhanced. Such products contributed more than half of the sales revenue of the pacemaker business in the European market for the first launch year. Through long-term cooperation with distributors, the Group expanded into some Asia-Pacific countries and African regions to further establish its global presence.

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 operated within the guidelines of "Serving China", "Made in China" and "Created in China". For the year ended 31 December 2019, MSC realized revenue of US$8.0 million, and achieved fast growth driven by the higher-than-expected growth rate of domestic pacemakers. As the manufacturer of the first Chinese domestic market pacemaker of world-class quality, it further enhanced its brand recognition. The Group's growing cooperation with new hospitals has led to an increase in implantation volume and accelerated the manufacturing localization of pacemakers. The Beflex™ active pacing lead, which obtained launch approval in China in 2018, commenced clinical applications throughout the country. Its maneuverability, positioning and passability have reached or even surpassed those of similar products. The domestic launch accelerated the conversion of existing lead implants and helped to earn wide recognition from doctors. Last but not least, the Group's self-developed CompassAnalyzer™ Pacing System Analyzer (PSA) also began sales.

Endovascular Devices Business

The endovascular devices business provides 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 2019, the endovascular devices business recorded revenue of US$48.5 million, representing a rapid 44.5% increase (excluding the impact of foreign exchange) which significantly exceeded the average market growth. This was mainly driven by the sales growth of all major products. In particular, the Castor™ Branched Aortic Stent-Graft System ("Castor™") – the world's first thoracic branch stent – has been applied by over 300 hospitals in China. The Minos™ Abdominal Aortic Aneurysm and Delivery System ("Minos™"), which was approved for launch in 2019, enriched the existing product portfolio and also brought new momentum to the growth of this segment. In the domestic market, the Group continued its sales strategy of "Development of the Second-, Third- and Fourth-Tier Hospitals with Intensive Effort", newly developed more than 60 hospitals and maintained its competitive market advantage. The Group has also gradually explored overseas markets. In 2019, the Minos™ obtained European Union CE certification and commenced its international business product line.

Neurovascular Devices Business

The neurovascular devices business segment specializes in 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.

For the year ended 31 December 2019, neurovascular devices business maintained rapid growth and recorded revenue of US$27.6 million, representing an increase of 55.6% (excluding the foreign exchange impact) compared to the previous year. In particular, the APOLLO™ stent (has been launched for 15 years) recorded a year-on-year revenue increase of 31.7% (excluding the foreign exchange impact), mainly due to the expansion of surgical applications and increased hospital coverage. Since the launch of the Group's self-developed Tubridge™ vascular reconstruction device, clinical application has doubled as the Group actively promoted education and training by experts, promotion in the academic circle, and implemented tiered sales management in the market. The clinical effect of such product has been recognized by experts. Proportion of revenue contribution has been further increased. The Fastrack™ Microcatheter System approved for launch in 2019 has also brought new growth to this segment.

Heart Valves Business

The heart valve business focuses on the research and development, manufacturing and sales of complete solutions of medical devices for treating valvular heart diseases, and principally heart valve diseases. The product in sales of this segment is the Group's self-developed VitaFlow™ Transcatheter Aortic Valve and Delivery System ("VitaFlow™ Valve System").

For the year ended 31 December 2019, the heart valve business recorded revenue of US$3.1 million. The VitaFlow™ Valve System was launched in 2019. The Group implemented targeted pricing and sales strategies focused on core hospitals and large and medium-sized hospitals, and carried out promotion in the academic circle and doctors training. As the first approved domestic transcatheter aortic valve product that adopts bovine pericardial leaflets, the VitaFlow™ Valve System is equipped with the Group's self-developed and approved Alwide™ balloon catheter and Alpass™ catheter Sheath, which provides doctors with a comprehensive treatment plan. The clinical data proved it has effectively improved the safety and effectiveness of surgery, thus gaining recognition from industry experts and doctors through application.

Surgical Robot Business

The surgical robot business is committed to cutting-edge research and technology integration in the fields of robot, intelligent control and information to provide innovative medical products.

In 2019, the Group's self-developed DFVision™ 3D Electronic Laparoscope began the special approval procedure for innovative medical devices ("Green Path") and completed the first domestic 3D electronic laparoscopic surgery, which marked the official start of domestic clinical trial. The Toumai™ Laparoscopic Surgical Robot ("Toumai™ Laparoscopic Robot") also entered the Green Path. In 2019, the first clinical study of radical prostatectomy with the aid of robot was completed, and it became the first domestic laparoscopic robot to complete a difficult urological surgery. The first-in-man ("FIM") clinical trial was officially launched. Presently, there are no domestic 3D laparoscope and domestic laparoscopic surgical robot products available on the market. After entering the Green Path, it will accelerate the domestic launch process and spur the development of internationally-advanced technologies and related domestic industries, thus benefiting more patients.

RESEARCH AND DEVELOPMENT ("R&D")

Effective R&D is a key driver of sustainable development for an innovative medical devices company. In this respect the Group's mission is to "Continuously innovate to provide access to the best means of prolonging and reshaping lives". With the goal of import substitution and building Chinese brands, the Group is committed to maintaining higher standards, introducing better practices, and innovative R&D leading to world-leading technologies. The aim is to create a technological innovation system combining production, education and research, and providing quality products and services to the global market, giving a strong drive to the sustainable development of the Group.

In 2019, a total of 18 Class III medical device products gained the National Medical Products Administration ("NMPA") approval and three entered the Green Path. Since the Green Path's establishment, 18 of the Group's products have been approved to enter the Green Path as of the end of 2019, ranking the Group first in the medical device industry for five consecutive years. The Group has several products that have obtained certification in the international market.

For the cardiovascular devices business, the FireCondor™ Rapamycin Target Eluting Coronary Stent System, the Firefighter™ NC Balloon Catheter and Waltz™ CoCr Coronary Stent System obtained registration certificates from NMPA. The guidewire and guiding catheter products also obtained approvals for launch, adding to the Group's PCI intervention consumables product line. In overseas markets, existing products in the segment have obtained 46 initial registration approvals in 17 countries or regions. Among them, the new generation Firehawk Liberty™ Coronary Rapamycin Target Eluting Coronary Stent System and the Firefighter™ NC PTCA Balloon Catheter obtained initial EU CE registration approval.

With respect to clinical progress, in March 2019, at the China Interventional Therapeutics (CIT) conference, the Group released the three-year follow-up results of the FUTURE-I research on Firesorb™ Bioresorbable Rapamycin Target Eluting Coronary Scaffold System ("Firesorb™") for the treatment of coronary artery disease. The results proved that the Firesorb™ stent based on PLLA with thinner Scaffolds strut is one of the viable, safe and effective solutions for the patients with single de novo coronary artery lesions, as compared with the first-generation biodegradable Scaffolds. For the FUTURE II pivotal study, over 50% of the subject have completed one-year angiography primary endpoint follow-up. The Group has also completed the preparation including IRB approval for starting subject enrollment for the prospective, multi-center and single-arm objective performance criteria (OPC) large scale study (FUTURE-III).

At the EuroPCR 2019 conference in May 2019, the Company initially released two-year follow-up data of the TARGET All-Comers ("TARGET AC") trial. The data was simultaneously published online by the *Journal of the American College of Cardiology*. Based on the trial's satisfactory results, the Firehawk™ stent was approved to be included in the French and Belgium medical insurance reimbursement list, which helps its further penetration into the European coronary stent market. At the American Conference on transcatheter cardiovascular therapy (TCT 2019), which was held in September 2019, the Group first released the follow-up data of two years' low-risk group and high-risk group of TARGET AC trial. The results showed that in both low-risk and high-risk groups, the two-year target lesion failure rate and the stent thrombosis rate of Firehawk™ stent were similar to the control group, which further demonstrated that Firehawk™ stent could achieve the same efficacy with the lowest drug load in the world with only one-third of drug load of similar products, and the safety increased significantly, showing the state-of-the-art technology.

In respect of the orthopedics devices business, the Aspiration™ Medial Stability Total Knee Replacement System and SoSuperior™ Medial Stability Total Knee Replacement System both obtained NMPA registration certificates in the domestic market in 2019. The made-in-China Goral™ Total Hip Replacement System obtained NMPA approval in February 2020, and was the Group's first domestically-made total hip replacement systems to obtain approval. Since then, the Group has basically completed the domesticaly-manufactured joint products portfolio and fully commenced the era of domestic manufacturing. In 2019, several other products also obtained NMPA registration certificates, including hip implant components of wedge-shape femoral stem and metal femoral head, the ARBORES™ Kyphoplastic Balloon Catheter, interlocking intramedullary nails and supporting tools, acetabular screws, and spinal posterior fixation system.

Overseas, the Evolution™ CS Stemmed Femur – a significant component of the Evolution™ Revision Knee System – and Evolution™ NitrX™ Medial-Pivot Knee obtained registration certificates and approval for launch in the USA and Canada. The Evolution™ Revision Knee System, femoral head line extension, and the Knee Tensioner Instrument System have also obtained approval in the US, while the Prime™ Acetabular system and Slo-Con™ Total Knee instruments have gained approval in Japan, and also the BIOLOX™ Delta™ Options system in Europe.

In respect of the CRM business, China's first full-body magnetic resonance imaging (MRI) conditional BonaFire™ passive pacing lead – independently developed by the Group – became the Group's 18th product to enter the Green Path. Meanwhile, the Group also launched a clinical study of the domestic MRI pacing system and expects to launch the first domestically-made MRI conditional pacemaker in the foreseeable future.

Overseas, the new-generation vein implantation 1.5T and 3T magnetic resonance conditional pacemakers – the ENO™ series – was officially launched in Japan. In Europe, the Group committed to the developing of new Bluetooth-enabled pacemaker platform and made significant progress. The pacemaker will be able to connect to a designated smartphone via Bluetooth and will send periodic reports and warning information to doctors for remote implant monitoring. Additionally, clinical studies to verify the safety and effectiveness of the NAVIGO™ quadrupole left ventricular pacing lead were completed, further improving and upgrading the CRM product portfolio.

In respect of the endovascular devices business, the Group's self-developed Minos™ Abdominal Aortic Aneurysm and Delivery System obtained an NMPA registration certificate and EU CE certification.

In respect of the neurovascular devices business, the Fastrack™ microcatheter system obtained an NMPA registration certificate. Fastrack™ was the Group's first independently-developed product to obtain registration certification in the neural pathway product segment. Prospective, multicentre, open, randomised controlled clinical trials of the coil occlusion system and detachment system were completed with satisfactory clinical results.

In respect of the heart valve business, the VitaFlow™ Valve System obtained an NMPA registration certificate, becoming the Group's sixth product to do so after entering the Green Path. This product will benefit patients with severe aortic stenosis in China. The VitaFlow™ II Transcatheter Aortic Valve and Retrievable Delivery System has entered the Green Path and planned to submit registration application to NMPA. The pre-marketing clinical research project trial in Europe commenced in an orderly manner as well.

In respect of the surgical robot business, the Group's self-developed DFVision™ 3D electronic laparoscope and Toumai™ Laparoscopic Robot both entered the Green Path. Toumai™ Laparoscopic Robot achieved independent innovations in the robot's basic components and technologies, including its 3D electronic laparoscopic system and control algorithm, streamlined bottlenecks in the production process, optimised the operating experience of doctors, reduced the cost of equipment maintenance and consumables, and demonstrated world-leading "Made in China by Intelligence".

Manufacturing

In 2019, 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 2019, in order to meet the significantly increased production volume demand and cost control targets, the Group arranged bottleneck production lines in advance, and through the implementation of many special improvement measures, the overall production capacity was significantly increased. At the same time, the Group continued to promote automated and intelligent production, having realized fully automated operation or production for various production processes and developed AI algorithms that automatically identify inferior product and defect, which helped significantly reduce the problem occurrence rate. The Group also utilized global resources to carry out global layout of production sites, and leveraged the advantages of industrial manufacturing in each country to ensure continuous supply of products.

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 business regulatory department and devotes 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 consistency meets the Group's quality management standards and policies. The quality and business regulatory 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 2019, the Group continued to strengthen its quality assurance capabilities, explored and improved the intelligence level of quality inspection, established evaluation capability platform, actively participated in the formulation of national standards, and facilitated the construction of the quality management system for various businesses. The excellent quality brand of the Group was fully recognized by the society. The Group was awarded a series of quality honours including the National Quality Benchmark, the Golden Quality Award of Shanghai Municipality and Quality Benchmark of Shanghai Municipality. Furthermore, the Group was awarded the APQO Innovation Class Award and is the first Chinese enterprise that receive such honour.

Competition

The environment in which we operate is continuously evolving. As a market leader among PRC companies manufacturing medical devices, the Group faces both domestic and international competition. In response, the Group pursues an independent course of innovation in order to strengthen its core competitiveness, and enable it to earn a leading market position by virtue of its high-quality products. The Group's products and brand are both widely recognised and highly regarded. Therefore, the Group is confident that it will maintain its current domestic market position and continue to expand its 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 committed to technological innovation, we also regard intellectual property protection such as patent application and trademark registration as vital and conducive to the Group's healthy and sustainable long-term development. In 2019, the Group filed 592 patent applications and 368 trademark applications domestically and internationally. As of the end of 2019, the Group held a total of 4,116 patents (including applications) covering 28 countries and 2,085 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 18.5% for the year ended 31 December 2019. The Group's cardiovascular devices, endovascular devices and neurovascular devices businesses have maintained the leading positions in China. The Group firmly continued to provide diversified products and pursue our globalization strategy with 54.5% of the revenue generated from the overseas markets. 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 markets.

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$'000	**Financial year ended**		**Percent change**	
	2019	2018	in US$	excluding the foreign exchange impact
Cardiovascular devices business	**264,633**	202,817	30.5%	35.5%
Orthopedics devices business	**232,441**	236,279	(1.6%)	(0.2%)
CRM business *(*Note 1)*	**209,025**	158,376	32.0%	36.9%
Endovascular devices business	**48,527**	34,975	38.7%	44.5%
Neurovascular devices business	**27,631**	18,427	49.9%	55.6%
Surgical devices business	**4,695**	5,925	(20.8%)	(17.2%)
Heart valve business	**3,119**	–	n.a.	n.a.
Other business *(*Note 2)*	**3,422**	12,691	(73.0%)	(73.2%)
Total	**793,493**	669,490	18.5%	22.0%

**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.

2. Other business segment did not meet the quantitative thresholds for determining reportable segments. During the year, revenue of other business is mainly attributable to electrophysiology devices business. MP EP was restructured in 2019 whereby the Group ceased to hold the controlling interest of MP EP and therefore MP EP became an equity-accounted investee of the Group. As a result, the revenue of this segment disclosed herein for the year ended 31 December2019 was recorded from MP EP for the period from 1 January 2019 to the date of loss of control.

The Group's revenue for the year ended 31 December 2019 was US$793.5 million, representing a growth of 18.5% compared to US$669.5 million for the year ended 31 December 2018. The Group's reported revenue was impacted by translation from the non-US$ functional currencies of the Group's subsidiaries, to US$, the presentation currency of the Group due to the appreciation or depreciation of US$ against the functional currencies. Excluding the foreign exchange impact, the Group's revenue growth rate was 22.0%. Such increase was primarily driven by the strong sales performance of the major businesses and the acquired CRM business. The following discussion is based on the Group's major business segments.

– *CARDIOVASCULAR DEVICES SEGMENT*

The Group's cardiovascular devices segment achieved revenue of US$264.6 million for the year ended 31 December 2019, representing a growth of 35.5% (excluding the foreign exchange impact) or a growth of 30.5% in US$ compared to the year ended 31 December 2018. 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 52.0% growth (excluding the foreign exchange impact) over the previous year; and (ii) Firebird2™ sales recorded a rapid growth of 24.7% (excluding the foreign exchange impact) through advanced distribution channels and the centralized bidding.

– *ORTHOPEDICS DEVICES SEGMENT*

US$'000	**Financial year ended**		**Percent change**	
	2019	2018	in US$	excluding the foreign exchange impact
Orthopedics devices business	**232,441**	236,279	(1.6%)	(0.2%)
– U.S.	**92,641**	99,673	(7.1%)	(7.1%)
– Europe, Middle East and Africa	**55,672**	60,122	(7.4%)	(3.3%)
– Japan	**35,127**	34,494	1.8%	0.9%
– PRC	**26,462**	17,838	48.3%	57.1%
– Others	**22,539**	24,152	(6.7%)	(6.6%)

Orthopedic devices segment achieved revenue of US$232.4 million for the year ended 31 December 2019, representing a slight decrease of 0.2% (excluding the foreign exchange impact) or 1.6% in US$ compared to the year ended 31 December 2018. Such revenue decrease was mainly because: (i) revenue in the US decreased by 7.1%, which was mainly due to the loss of a major distributor in 2018; (ii) revenue in Japan increased by 0.9% excluding the foreign exchange impact or 1.8% in US$, which was attributable to positive momentum from the Japan market driven by a focus on sales execution and customer development; (iii) revenue in Europe, the Middle East and Africa market decreased by 3.3% excluding the foreign exchange impact or 7.4% in US$ mainly due to the impact of price erosion; (iv) revenue in the PRC market increased by 57.1% excluding the foreign exchange impact or 48.3% in US$, which was attributable to the greater market recogition from surgeons for the Medial-Pivot Knee and SuperPATH™, and market penetration to several white spaces, leading to a significant increase in sales volume; and (v) sales in other markets recorded a decrease of 6.6% excluding the foreign exchange impact or 6.7% in US$, mainly due to the decrease of sales in Australia.

– *CRM BUSINESS*

US$'000	**Financial year ended**		**Percent change**	
	2019	2018	in US$	Excluding the foreign exchange impact
CRM Business	**209,025**	158,376	32.0%	36.9%
– US	**2,878**	2,036	41.4%	41.4%
– Europe, Middle East and Africa	**183,706**	129,446	41.9%	46.9%
– Japan	**2,707**	17,949	(84.9%)	(83.1%)
– PRC	**7,967**	5,683	40.2%	42.5%
– Others	**11,767**	3,263	260.6%	199.7%

CRM business was acquired by the Group from LivaNova, and the 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 statement of the Group. CRM business recorded revenue of US$209.0 million for the year ended 31 December 2019, representing an increase of 36.9% excluding the foreign exchange impact or 32.0% in US$ over the year ended 31 December 2018. Such increase was mainly attributable to the fact that the revenue recorded for this segment for the year ended 31 December 2018 only includes the revenue for the acquired business for the period from 30 April 2018 to 31 December 2018 and the revenue of the previous pacemaker business for the year ended 31 December 2018. Revenue in the Japan market decreased by 83.1% excluding the foreign exchange impact or 84.9% in US$, which was mainly due to the impact of the strategic transformation from its original distribution model to a direct sale model.

– *ENDOVASCULAR DEVICES SEGMENT*

The Group's endovascular devices segment achieved revenue of US$48.5 million for the year ended 31 December 2019, representing a growth of 44.5% (excluding the foreign exchange impact) or a growth of 38.7% in US$ compared with the year ended 31 December 2018. Such increase was mainly attributable to: (i) positive market recognition and enhanced competitiveness of the Group's endovascular products in aortic aneurysm and endovascular treatment market attributable from the newly launched product Castor™, the world's first thoracic branch stent-graft system; (ii) the market share of Hercules™ products was further expanded with the support of high market recognition; and (iii) in response to government guideline, cultivating markets in second-and third-tier cities through effective promotion mechanisms.

– *NEUROVASCULAR DEVICES SEGMENT*

The Group's neurovascular devices segment recorded revenue of US$27.6 million for the year ended 31 December 2019, representing a growth of 55.6% (excluding the foreign exchange impact) or a growth of 49.9% in US$ compared to the year ended 31 December 2018. Such increase was mainly attributable to: (i) positive market recognition for newly launched Tubridge™, the first flow diverting stent approved for product launch in China; (ii) the rapid growth of 31.7% excluding the foreign exchange impact in APOLLO™ driven by its greater market recognition; and (iii) rapid growth of an agent product, neurovascular guide wire ASAHI.

– *SURGICAL DEVICES SEGMENT*

The Group's surgical devices segment recorded revenue of US$4.7 million for the year ended 31 December 2019, representing a decline of 17.2% (excluding the foreign exchange impact) or a decline of 20.8% in US$ as compared to the year ended 31 December 2018. Such decrease was mainly attributable to the temporary suspension of production of certain production lines. The cause of suspension of production was eliminated in May 2019 and the production of the segment of surgical management devices was resumed.

– *HEART VALVE BUSINESS SEGMENT*

The Group's heart valve business segment recorded revenue of US$3.1 million for the year ended 31 December 2019. The VitaFlow™ Valve System was approved for launch in 2019 and quickly gained market share with positive market recognition.

– *OTHER BUSINESS SEGMENT*

The Group's other business segment recorded revenue of US$3.4 million for the year ended 31 December 2019, representing a decrease of 73.2% excluding the foreign exchange impact or a decrease of 73.0% in US$ compared to the year ended 31 December 2018. The other business segment did not meet the quantitative thresholds for determining reportable segments. For the year ended 31 December 2019, revenue of the other business segment is mainly attributable to electrophysiology devices business. MP EP was restructured in 2019 whereby the Group ceased to control MP EP and therefore it became an equity-accounted investee of the Group. As a result, the revenue of this segment disclosed herein for the year ended 31 December 2019 only accrued revenue from MP EP for the period from 1 January 2019 to the date of loss of control.

COST OF SALES

For the year ended 31 December 2019, the cost of sales of the Group was US$229.1 million, representing an increase of 14.8% as compared to US$199.5 million for the year ended 31 December 2018. Such increase was mainly attributable to: (i) increased sales volume of the major segments; and (ii) the acquisition of the CRM business was completed in April 2018, and its cost of sales was fully included in the Group's consolidated financial statements for the year ended 31 December 2019, and there were four additional months of cost of sales included as compared to 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 20.1% from US$470.0 million for the year ended 31 December 2018 to US$564.4 million for the year ended 31 December 2019. Gross profit margin is calculated as gross profit divided by revenue. The gross profit margin of the Group increased from 70.2% for the year ended 31 December 2018 to 71.1% for the year ended 31 December 2019, mainly due to the optimisation of the product sales mix.

OTHER NET INCOME

Other net income increased by 35.3% from US$13.8 million for the year ended 31 December 2018 to US$18.7 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in government grant.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by 44.5% from US$104.8 million for the year ended 31 December 2018 to US$151.5 million for the year ended 31 December 2019. Such increase was mainly attributable to: (i) the acquisition of the CRM business. Its research and development costs were fully included in the Group's consolidated financial statements for the year ended 31 December 2019, and there were four additional months of research and development costs included as compared to the year ended 31 December 2018; and (ii) increased investments in the on-going R&D projects and the newly kicked off R&D projects.

DISTRIBUTION COSTS

Distribution costs increased by 26.4% from US$217.8 million for the year ended 31 December 2018 to US$275.3 million for the year ended 31 December 2019. Such increase was mainly attributable to: (i) the acquisition of the CRM business. Its distribution costs were fully included in the Group's consolidated financial statements for the year ended 31 December 2019, and there were four additional months of distribution costs included as compared to the year ended 31 December 2018; (ii) increase in staff cost; and (iii) increase in sales promotion.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 24.7% from US$95.7 million for the year ended 31 December 2018 to US$119.3 million for the year ended 31 December 2019. Such increase was mainly attributable to: (i) the acquisition of the CRM business. Its administrative expenses were fully included in the Group's consolidated financial statements for the year ended 31 December 2019, and there were four additional months of administrative expenses included as compared to the year ended 31 December 2018; and (ii) increase in staff cost.

OTHER OPERATING COSTS

The Group's operating costs decreased by 36.3% from US$13.4 million for the year ended 31 December 2018 to US$8.5 million for the year ended 31 December 2019. Such decrease was mainly attributable to: (i) decrease in professional fees relating to the acquisition of the CRM business for the year ended 31 December 2019; and (ii) decrease of impairment loss of intangible assets.

FINANCE COSTS

The Group's finance costs increased from US$21.0 million for the year ended 31 December 2018 to US$22.7 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in interest-bearing bank borrowings and the impact of adoption of HKFRS 16, Lease from 1 January 2019.

GAIN ON DISPOSAL OF SUBSIDIARIES

In February 2019, MP EP together with its original shareholders entered into a capital increase and share transfer agreement and a shareholder agreement with Jiaxing Huajie, pursuant to which, Jiaxing Huajie agreed to (i) subscribe for 16,477,942 newly issued shares of MP EP at a cash consideration of RMB200.0 million; and (ii) acquire 18,362,194 shares of MP EP from the Group at a cash consideration of RMB222.9 million. The transaction was accounted for as a disposal of MP EP with a gain of US$63.1 million recognised in profit or loss for the year ended 31 December 2019.

INCOME TAX

The Group's income tax increased from US$14.5 million for the year ended 31 December 2018 to US$34.2 million for the year ended 31 December 2019. Such increase was mainly attributable to: (i) the increase in profit before tax of the PRC subsidiaries; (ii) estimated tax expenses in relation to the disposal of partial equity interests in MP EP; and (iii) tax expenses on the reorganisation of shareholding in the heart valve business.

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 2019, the Group had cash and cash equivalents of US$280.1 million, as compared to US$130.1 million as at 31 December 2018. Such increase was mainly attributable to the separate listing of MP Endo on the science and technology innovation board and the Series C financing of MP CardioFlow Cayman, both of which are subsidiaries of the Company. 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 2019 were US$403.3 million, representing an increase of US$74.2 million as compared to US$329.1 million as at 31 December 2018. Such increase was driven by the working capital invested in the CRM business. As at 31 December 2019, the gearing ratio (calculated as total bank borrowings and convertible bonds divided by total equity) of the Group decreased to 61.7%, while that as at 31 December 2018 was 62.2%.

NET CURRENT ASSETS

The Group's net current assets as at 31 December 2019 were US$309.2 million, as compared to US$114.3 million as at 31 December 2018. Such increase was mainly attributable to the separate listing of MP Endo on the science and technology innovation board of the Shanghai Stock Exchange and the Series C financing of MP CardioFlow Cayman, both of which are subsidiaries of the Company.

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 JPY). For the year ended 31 December 2019, the Group recorded a net exchange gain of US$0.2 million, as compared to a net foreign exchange gain of US$9.6 million for the year ended 31 December 2018. 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

In addition, during the year ended 31 December 2019, the Group's total capital expenditure amounted to approximately US$115.1 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 2019, the Group had pledged certain bank deposits and mortgaged its manufactory buildings and land use rights held for own use for the purpose of securing bank loans with a carrying value of US$43.8 million.

As at 31 December 2019, a bank loan amounting to US$83.8 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, thereby maximizing shareholders' interest and creating higher value. The Group will continue to grow the business both in scale and strength through self-development, mergers and acquisitions, and other means. The Group's future business plan will be supported by a combination of financing channels to finance capital expenditures, including but not limited to internal funds and bank loans. Currently, the bank credit lines available to the Group are adequate.

PROSPECT

The continuing improvement in income and living standards and the year-by-year increase in proportion of the global ageing population are driving steady growth in global demand for medical devices. In the PRC, with the continued economic development, increased government expenditure in social medical insurance, policy benefits from medical system reform and a gradual improvement in public health awareness, the medical devices market experienced rapid growth, providing opportunities for an equally rapid development of the Group's business. Such rapid development has also attracted more multinational corporations to the market, resulting in fierce competition. The Group will further implement proactive strategies which include but are not limited to the followings, to compete in the market:

1. Strengthening our leading position in the domestic medical devices market. The Group will fully leverage on its brand recognition and sales distribution network to further expand its market shares, and strengthen and maintain its leading position in the PRC medical devices market.

2. Integration of the MicroPort brand with global operations. The Group will pursue a global brand and operational strategy based on localisation, implement an operational model of "global strategy, localised execution, diversified planning and unified positioning". The Group will effectively integrate global resources with the market to complete its global planning and introduce products to more countries and regions and benefit patients around the world.

3. Developing and improving existing products, achieving product diversification by innovation. The Group will further develop and improve the performance and manufacturing technology of existing products, foster research and development toward products of next generation. The Group will further progress on the clinical trials and obtaining approvals for new products to diversify the Group's product mix and provide a comprehensive portfolio of medical devices to patients and physicians.

4. Reforming management system. The Group will carry out management system reforms with the aims of integrating resources, streamlining processes and optimising management structures, and eventually enhancing the Group's competitiveness and risk resistance.

The outbreak of the COVID-19 since the beginning of 2020 is a challenging situation faced by the society on a global basis. The Group has been assessing the overall impact of the situation on the operation of the Group and endeavoured all efforts to manage the impact. The Group will continuously monitor the changing situations and make timely responses and adjustments as they arise.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been compared by the Group'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 2019, the Company has 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. On 21 September 2012, Dr. Zhaohua Chang ("Dr. Chang") re-assumed the responsibility of executive Director and was appointed the chairman of the Board. 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 also 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 (including Independent Non-executive Directors) of the Company are not appointed for a specific term, except Mr. Chunyang Shao (as independent non-executive Director) who has been appointed for a term of three years. All directors 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 introduced for compliance with the CG Code. The Nomination Committee will continue to 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 the 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 auditor.

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 2019, the financial reporting and compliance procedures, the Group's internal control and risk management systems and processes, and the re-appointment of the external auditor.

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 2019.

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 2019.

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

Save for the 19,426,000 shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$17,632,000 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 2019.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In February 2019, MicroPort EP MedTech Co., Ltd. ("MP EP") entered into a capital increase and share transfer agreement with its original shareholders and Jiaxing Huajie I Equity Investment Limited Partners (Limited Partnership) ("Jiaxing Huajie"), an independent third party, pursuant to which, Jiaxing Huajie agreed to (i) subscribe for 16,477,942 newly issued shares of MP EP at a cash consideration of RMB200,000,000; and (ii) acquire 18,362,194 shares of MP EP from the Group at a cash consideration of RMB222,870,000. Upon completion of the disposal, the Group's equity interest in MP EP decreased from 81.93% to 45.10%. The transaction did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

In July 2019, the shares of Shanghai MicroPort Endovascular MedTech Co., Ltd. ("MP Endo") were separately listed on the science and technology innovation board of the Shanghai Stock Exchange (the "Separate Listing"). Pursuant to the Separate Listing, MP Endo issued a total of 18,000,000 A shares at an offer price of RMB46.23 per share to investors. Upon completion of the Separate Listing and the new issue, the Group's interest in MP Endo was reduced from 61.79% to 46.34%.

Reference is made to the announcements of the Company dated 22 March 2019, 27 March 2019 and 29 October 2019. In 2019, Microport CardioFlow Medtech Corporation ("MP CardioFlow Cayman") issued 11,250,000 Series C Preferred Shares to Qianyi Investment I L.P., an independent third party, for a cash consideration of US$45,000,000. Upon completion of the issue, the Group's voting right in MP CardioFlow Cayman was reduced from 64.7151% to 57.3425%.

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

SUBSEQUENT EVENT

In February 2020, convertible bonds issued by the Company in the aggregate outstanding principal amount of US$84,410,468 were fully converted to 95,949,033 ordinary shares of the Company at a conversion price of HK$6.84 per share. As at the date of this announcement, the Group has no outstanding convertible notes.

Under the term of a stock and asset purchase agreement dated 8 March 2018 in relation to the acquisition of the CRM business from LivaNova, the purchase price consideration is subject to an adjustment after the initial closing (the "Adjustment Amount"). As at 31 December 2019, the Group and LivaNova were still in the process of finalising the Adjustment Amount. In March 2020, the arbitrator, appointed by the Group and LivaNova determined that LivaNova shall refund a total of US$16.4 million as the Adjustment Amount to the Group. As at the date of this announcement, the Adjustment Amount has been fully received.

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 2019 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 18 June 2020. 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 HK5.3 cents (tax inclusive) per share (the "Share") for the year ended 31 December 2019 to the shareholders whose names appear on the register of members of the Company on Monday, 29 June 2020 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 Monday, 17 August 2020. 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 Monday, 17 August 2020. 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 2019. 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 Monday, 13 July 2020.

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 Monday, 15 June 2020 to Thursday, 18 June 2020, 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 Friday, 12 June 2020 (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 2019 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, 24 June 2020 to Monday, 29 June 2020, 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, 23 June 2020 (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 Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.microport.com). The 2019 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, 30 March 2020

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.