ANNUAL REPORT 2020

MicroPort Scientific Corporation

微創醫療科學有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)


MicroPort

CONTENTS

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTOR

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

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Dr. Yasuhisa Kurogi
Mr. Hongliang Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Chunyang Shao

COMPANY SECRETARY

Ms. Yuen Wing Yan Winnie, *FCG, FCS*

AUTHORIZED REPRESENTATIVES

Dr. Zhaohua Chang
Ms. Yuen Wing Yan Winnie

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chunyang Shao *(Chairman)*
Mr. Hongliang Yu
Dr. Guoen Liu

STRATEGIC COMMITTEE

Dr. Zhaohua Chang *(Chairman)*
Dr. Yasuhisa Kurogi
Mr. Jonathan H. Chou
Mr. Hongliang Yu

REGISTERED OFFICE

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

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

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

PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

LEGAL CONSULTANT

Sidley Austin

SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPANY WEBSITE

www.microport.com

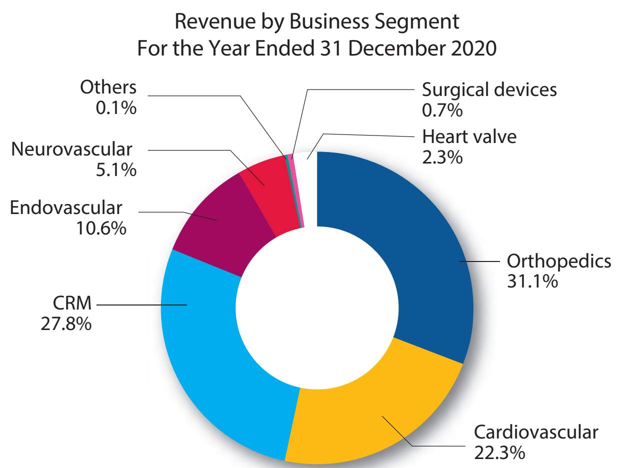
PRINCIPAL BANKERS

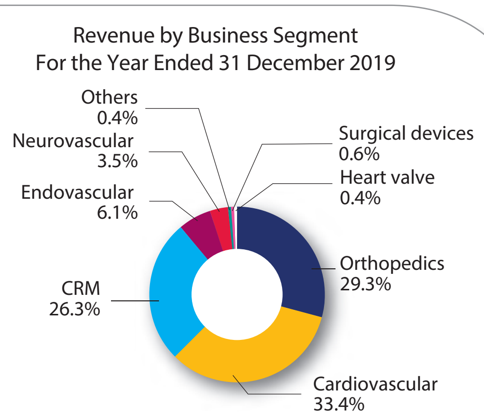
Bank of China (Hong Kong) Limited
China Construction Bank Corporation Shanghai Pudong Branch
Bank of China Limited Shanghai Zhangjiang Sub-Branch
China Minsheng Banking Corporation Limited
Bank of America
BNP Paribas

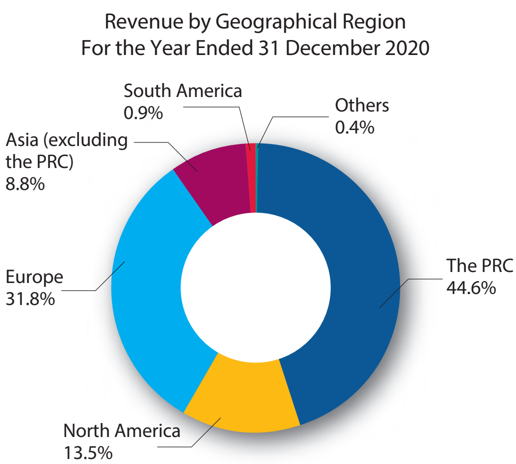
FINANCIAL HIGHLIGHTS

	Financial Year Ended		
	2020 US$'000	2019 US$'000	Change %
Revenue	**648,732**	793,493	(18.2%)
Gross profit	**436,032**	564,425	(22.7%)
(Loss)/profit for the year	**(223,348)**	29,009	(869.9%)
(Loss)/profit attributable to equity shareholders of the Company	**(191,252)**	46,281	(513.2%)
(Loss)/earnings per share –			
Basic (in cents)	**(10.97)**	2.92	(475.7%)
Diluted (in cents)	**(11.11)**	1.98	(661.1%)

Revenue Analysis







FIVE YEARS' FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**648,732**	793,493	669,490	444,190	389,921
(Loss)/profit for the year	**(223,348)**	29,009	18,381	16,951	15,069
Assets					
Non-current assets	**989,270**	856,997	719,756	473,918	417,074
Current assets	**1,479,863**	740,954	554,691	429,705	357,476
Total assets	**2,469,133**	1,597,951	1,274,447	903,623	774,550
Liabilities					
Current liabilities	**519,379**	431,801	440,390	198,893	210,039
Non-current liabilities	**561,808**	512,185	305,111	265,278	218,032
Total liabilities	**1,081,187**	943,986	745,501	464,171	428,071
Total equity	**1,387,946**	653,965	528,946	439,452	346,479

COMPANY PROFILE

MicroPort Scientific Corporation (the "Company" or "MicroPort") and its subsidiaries (collectively the "Group") is a leading medical device group focusing on innovating, manufacturing and marketing highend medical devices globally. With a diversified product portfolio now being used in over 10,000 hospitals in the world, the Group maintains world-wide operations in a broad range of business segments including cardiovascular, orthopedics, cardiac rhythm management ("CRM"), endovascular, neurovascular, heart valve, surgical robot and other business. Every six seconds, one of MicroPort's products is being used worldwide to save life, improve life quality or help create life. The Group is dedicated to becoming a patient-oriented global enterprise that will continuously innovate and provide trustworthy and universal access to state-of-the-art solutions of prolonging and reshaping all lives.

The Group is human-oriented and is committed to improving people's lives through practical application of innovative science. We continually develop leading technologies and products for physicians and provide trustworthy and universal access to state-of-the-art solutions of prolonging and reshaping all lives to patients. We are a young group with an ambition to establish MicroPort as a globally recognized brand. Yet as the business grows, we strive to retain our unique entrepreneurial spirit and our commitment to improving the social well being, and continue to demonstrate entrepreneurial achievement and innovation spirit.

We have a large and growing intellectual property portfolio and a strong research and development ("R&D") team. We work in close cooperation with internationally recognized physicians and scientists worldwide, to develop a range of products that meet the highest quality and clinical standards. As we strive to provide state-of-the-art medical technologies and deliver new-generation medical devices and treatments for chronic ailments, our R&D team applies their expertise to ensure the sustained innovation of our latest products. With a large global footprint of R&D and manufacturing facilities in Shanghai, Jiaxing, Suzhou, Dongguan in China, Memphis in the United States, Clamart in France, Saluggia in Italy and Dominican Republic, a strong focus on technological innovation with over 5,000 patents (including applications), and a global workforce of over 7,000, MicroPort is committed to achieving its corporate vision.

Our products touch the lives of many people every day and we take this important responsibility very seriously. We are proud that MicroPort products will always achieve the highest standards of quality and ensure improved health for the patients. We know our products offer hope and relief to many people around the world, and every one of our employees takes personal responsibility to achieve our vision.

It is our commercial achievements that enable us to contribute back to the society, which makes our success deserved. Our commitment to social responsibility is an important aspect of our company culture and philosophy. MicroPort works diligently to build strong relationships with all our international partners and all our stakeholders, because we take our community as an essential part of our business, and we strive to pursue the essence to achieve the greatness.

OUR VISION

PEOPLE ORIENTED

Building a Super-Conglomerate of People Centric Enterprises of Emerging Medical Technologies.

OUR MISSION

CONTINUOUS INNOVATION

To Provide Trustworthy and Universal Access to State-of-the-Art Solutions of Prolonging and Reshaping All Lives.

CHAIRMAN'S STATEMENT

Dr. Zhaohua Chang
Chairman

Dear shareholders,

In 2020, the sudden outbreak of the COVID-19 pandemic has brought unprecedented challenges to all regions of the world. MicroPort staff around the world actively performed corporate social responsibility and offered help to patients and frontline medical staff with concerted efforts. Despite the impact of the pandemic, the Group managed to carry out production and business activities in an orderly manner, which helped the recovery of its business in China and overseas regions, as well as maintained its leading position in the market. We also made continuous efforts in our independent R&D to inject new growth momentum into the Group.

For the year ended 31 December 2020, the Group recorded sales revenue of US$648.7 million. Among which, the heart valve business, endovascular and peripheral vascular devices business, and neurovascular devices business continued to maintain rapid growth, with revenue growth of 383.4%, 40.9% and 17.5% (excluding the foreign exchange impact) respectively compared to last year.

For the cardiovascular business, the Group has unswervingly invested in R&D and expanded sales force to further consolidate its leading position in domestic coronary product market with provision of all-round coronary heart disease treatment solutions. Moreover, the Group actively penetrated low-tier cities markets, in order to enable accessibility of world's leading medical solutions to the mass market. In the national centralized procurement for coronary stent products conducted in 2020, the Group was the only domestic company with two selected products and was granted the most total intentional procurement volume among all players, thanks to its excellent product performance and diversified product portfolio. The Group has also continued to expand its business in overseas markets, with products covering more than 30 countries or regions. The Target IV NA clinical trials for the Firehawk® Rapamycin Target Eluting Coronary Stent was commenced during the Reporting Period, which will build a foundation for its penetration into the three major overseas markets, namely the United States, Canada and Japan.

For the orthopedics business, the Group's domestic and overseas R&D teams have actively cooperated on new product development. A number of key products were certified for commercialization in various regions around the world during the Reporting Period, which helped optimizing the global product portfolio of the Group. In addition, domestic and foreign production and supply chain teams have made significant progress in cost reduction and efficiency enhancement with cross-region cooperation. In the PRC market, strong performance was seen in joint product sales. A number of made-in-China hip joint products were certified for commercialization during the Reporting Period, marking the completion of made-in-China primary joints replacement product line of the Group.

CHAIRMAN'S STATEMENT

For the CRM business, the Group has been committed to creating world-leading comprehensive CRM solutions. The domestic and overseas R&D teams worked together and made progress in the development of a number of key products with high efficiency, and our pacemaker series equipped with Bluetooth® connectivity and associated to remote home monitor have been filed for registration in Europe, the United States and Japan during the Reporting Period, and received CE certification in January 2021. In the domestic market, made-in-China pacemakers continued to improve the brand recognition with steady growth in their market share, having become a major catalyst for the growth of CRM domestic business.

For the endovascular and peripheral vascular devices business, new products contributed to support a rapid revenue growth. The Group increased its R&D input in peripheral vascular and venous areas, where Reewarm® PTX drug balloon has obtained certification and been launched and the venous stent system completed the first clinical implantation during the Reporting Period. The Group also expanded its overseas market deployment, allowing more high-quality medical solutions accessible to patients across the world.

For the neurovascular devices business, the NUMEN® Coil Embolization System, the Bridge® Rapamycin Target Eluting Vertebral Artery Stent System and the U-track® Intracranial Support Catheter System obtained certifications during the Reporting Period, which laid a solid foundation for a comprehensive solution for cerebral stroke. Multiple products in this segment obtained certification in overseas market, implying a new chapter of its global business development.

For the heart valve business, VitaFlow® Transcatheter Aortic Valve and Delivery System has recorded rapid growth in the number of hospital coverage and sales volume in the domestic market in the second year since its commercialization, and was approved for launching in overseas markets for the first time. In addition, the Group has entered the large-scale mitral regurgitation sector with multiple transcatheter mitral valve products under development.

For the surgical robot business, the Group has mastered the fundamental technology for independent development of surgical robots. Its product line covers five promising subsectors of surgical robots including endoscopy, orthopedics, vascular intervention, natural cavity and percutaneous puncture. As of the end of January 2021, the Group has completed patient enrollment for clinical trials for both the Toumai® Endoscopic Surgery Robotic System and the Skywalker™ Orthopedic Surgery Navigation and Positioning System, while the DFVision® 3D Electronic Laparoscope has been submitted for registration.

In 2020, the Group continued to expedite the function improvement of each platform, with emerging business synergy among all segments, fully reflecting the great advantage of group operation. It is beneficial for not only the acceleration of business incubation, but also the product launch and promotion of various medical solutions. The Group further expanded the coverage of its medical solutions during the Reporting Period, and made another impressive stride to achieving a prospect of the establishment of a people-oriented emerging high-tech medical super cluster.

The Group and its associated companies raised approximately US$1 billion from external financing during the year of 2020. In addition, following the successful listing of Shanghai MicroPort Endovascular MedTech Co., Ltd. ("MP Endo") on the Science and Technology Innovation Board of Shanghai Stock Exchange in 2019, MicroPort CardioFlow Medtech Corporation ("MP CardioFlow") was successfully listed on the Main Board of the Hong Kong Stock Exchange on 4 February 2021 (stock code: 02160). The above financing will enable increased R&D investment and continuous innovation of the Group, providing doctors and patients with more accessible solutions that can prolong and reshape lives.

In the future, the Group will make further improvements in key areas of high-end medical devices, and strive to implement strategies from multiple dimensions for exponential growth. The Group will continue to provide integrated solutions to patients, doctors and hospitals, aiming to build up a brand truly dedicated for doctors and patients.

In 2020, our Directors, senior management officers and all staff members carried on their work in a pragmatic, diligent and committed fashion. On behalf of all members of the Company, I express my gratitude and appreciation to our shareholders, vendors, distributors, physicians and surgeons, as well as business communities and partners, for their dedicated and enduring support.

Dr. Zhaohua Chang
Chairman

30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

OVERVIEW

In 2020, the entire world faced unprecedented challenges brought on by the COVID-19 pandemic. With the global efforts to combat the pandemic, the impact of the pandemic is generally manageable, but the situation in many other regions is still uncertain. In the short term, outpatient visits and elective surgeries for purposes other than COVID-19 treatment were postponed, which made a deep impact on some industries; but in the long run, the ageing population and the pursuit of higher quality of life have led to increasing medical demand and steady growth of the medical industry in general.

In China, the State Council issued "Opinions on Deepening the Reform of the Medical Security System". This aimed to standardise the scope of payment for medical service facilities through calling for improvements to medical insurance catalogues' dynamic adjustment mechanism, namely by incorporating drugs, diagnosis and treatment items, and medical consumables with high clinical value and good economic value into the scope of medical insurance payment. Also ongoing is the reform of centralised volume-based procurement for medical consumables. This involves combining bidding with purchasing, linking prices with volume, and implementing volume-based procurement of medical consumables for the ultimate purpose of establishing a nationwide procurement system. Moreover, the National Medical Security Administration promulgated the "Medical Security Disease Diagnosis Related Groups (CHS-DRG) Subdivision Group Plan (Version 1.0)" during the Reporting Period, which further refined group division. The government also demanded greater effort to be put in policy research and more guidance for pilot cities to facilitate a sustainable and healthy pilot development. The payment system will be implemented in each pilot city starting from 2021. The National Medical Security Administration also launched the Diagnosis-Intervention Packet (DIP) pilot programme, which connects the aggregate regional medical insurance budget with a point-based system to enable a diversified and compound payment method in which hospitalisation bills are DIP-based. There is a possibility that two sets of payment methods will prevail concurrently in the future. Hospitals will tend to use consumables that are cost-effective, which in turn is conducive to enterprises that produce high-quality products at lower cost. At the same time, the National Health Commission has issued a notice on the issuance of the Management Measures for Hospital Consortium (Trial), which sets out the rules and requirements for the construction of four different types of consortium: urban medical groups, county medical communities, specialist alliances and remote medical collaboration networks ("Hospital Consortium"). In terms of policy requirements, the members of the Hospital Consortium will gradually form a common entity in terms of services, responsibilities, benefits and management, and the procurement, distribution and settlement of drugs and consumables will also be unified, thus creating synergy in the reform of health insurance and medicine. In general, while the government will focus on reducing the burden on patients, it will also gradually pay attention to the impact on corporate profits, product innovation and medical institutions, which will ultimately lead to the concentration of the industry in the top companies that can maintain quality and quantity, have a diversified product line and possess advanced technology and innovation capabilities.

In respect of overseas regions, the outbreak of the COVID-19 pandemic had an impact on the global economy, the international trade situation is complex and volatile, and market entry barriers are gradually higher. Only enterprises with extensive overseas exposure may be viable players internationally.

During the Reporting Period, in terms of reportable segments based on financial reporting, the Group has eight major business segments: cardiovascular devices, orthopedics devices, CRM, endovascular and peripheral vascular devices, neurovascular devices, heart valve, surgical robot and surgical devices. In all, the Group offers more than 300 varieties of medical devices, and provides nearly 300 medical solutions to doctors and patients in more than 10,000 hospitals across over 80 countries or regions. In 2020, the Group's cardiovascular devices business, orthopedics devices business and CRM business remained at the forefront of the global market, meanwhile the endovascular devices business and neurovascular devices business continued to maintain their leading positions in China market.

As the pandemic raged in 2020, MicroPort staff made every effort to ensure that production and operations were maintained and corporate and social responsibilities were fulfilled. The Group's global resources were coordinated to overcome the attendant challenges. Though overseas markets were affected by the volatile nature of the pandemic, the Group managed to expedite business recovery in China, maintain leading position in the market and make key progress in research and development. Each business segment has built up a rich product pipeline and continues to incubate new growth drivers to create inclusive and quality integrated healthcare solutions in various disease areas.

During the Reporting Period, the Group achieved revenue of US$648.7 million, of which 22.3% was derived from the cardiovascular devices business, 31.1% from the orthopedics devices business, 27.8% from the CRM business, 10.6% from the endovascular and peripheral vascular devices business, 5.1% from the neurovascular devices business, 2.3% from the heart valve business and 0.7% from the surgical devices business. Overall revenue declined by 18.8% (excluding foreign exchange impact) year-on-year due to the impact of the pandemic to various degrees in all regions, both domestically and internationally. However, it is encouraging to note that even with the impact of the pandemic, the Group's endovascular and peripheral vascular devices business, neurovascular devices business and heart valve business still achieved rapid revenue growth of 40.9%, 17.5% and 383.4% (excluding foreign exchange impact) respectively year-on-year. The Group reported a net loss for the year of US$223.3 million (loss attributable to equity shareholders of the Company: US$191.3 million).

In addition, during the Reporting Period, the Group and its associated companies raised external financing of approximately US$1 billion, including approximately HK$1.54 billion for the Company's new placement, approximately RMB3.0 billion for the surgical robot business, approximately US$130 million for the heart valve business, approximately US$75.0 million for the CRM business, approximately RMB580 million for the orthopedics devices business, approximately RMB300 million for the electrophysiology devices business and approximately RMB90.0 million for the assisted reproduction business. The above financing will enable the Group to continue to invest in research and development to generate a constant flow of innovation.

As a subsequent event, MicroPort CardioFlow Medtech Corporation (Stock code: 02160) was successfully listed on the Main Board of the Hong Kong Stock Exchange on 4 February 2021 and became the second subsidiary of the Group to achieve a spin-off listing, which will provide the business with sufficient capital to expand its product market, improve its production capacity, and support its ongoing R&D activities.

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.

Until now, such business has four drug eluting stents ("DES") and four balloon products on sale in nearly 30 countries and regions around the globe. For the year ended 31 December 2020, the Group's cardiovascular devices business recorded a revenue of US$144.8 million, representing a 44.6% decrease (excluding foreign exchange impact) compared with the previous year, mainly due to the pandemic and the impact of national volume-based procurement policies which has led to price adjustments for stent products that have been sold but not yet implanted in the channels.

In terms of product usage, China has become the largest PCI country in the world, but there is still a large gap between the number of PCI cases per million population and that of developed countries, and with the gradual improvement in the PCI capacity of county hospitals, the overall demand for coronary interventions in the country will maintain a steady growth trend. In the international market, the use of coronary stents has been growing steadily. The Group serves the needs of physicians and patients worldwide, and is actively investing in research and development to provide precise services and promote integrated cardiovascular solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group continued to strengthen and build its solid team, and focused on increasing market penetration, particularly at the county level. The Group's DES covered more than 2,400 hospitals during the Reporting Period, with Firehawk® coverage increasing by 27% and Firebird2® coverage increasing by 14% as compared to the previous year. In addition to the four existing DESs and four balloon products, the Group also achieved milestones in various product areas such as bioresorbable stent, coronary atherectomy catheter, coronary intravascular lithothipsy balloon and drug balloon during the Reporting Period. In 2020, the PRC centralised volume-based procurement for coronary stents was rolled out, which caused a reshuffling of the domestic market. The Group's self-developed Firebird2® Rapamycin-Eluting CoCr Coronary Stent System ("Firebird2®") and Firekingfisher® Coronary Rapamycin-Eluting CoCr Coronary Stent ("Firekingfisher®") which obtained registration approval during the year, were both shortlisted, making the Group the only domestic company with two shortlisted products. These products also rank first in terms of total intentional purchase volume, which will help boost the Group's market share and cement leading position of orthopedic of the Group in the PRC market.

In the overseas markets, due to the impacts of the COVID-19 pandemic, revenue derived from stents was US$11.4 million, representing a drop of 31.3% from the corresponding period of last year (excluding the impact of foreign exchange), while, sales in Europe continued to grow steadily. During the year, the Group strengthened its efforts to access global markets despite the pandemic, with DES securing 14 initial registrations in 10 countries or regions, and being launched in 30 countries and regions. Firehawk® has been included in the medical insurance reimbursement list of 9 countries, including France, Belgium and Spain etc. The Group is also active in mainstream markets around the world. Firehawk® completed its first subject enrolment for TARGET IV NA clinical trials, which creates a foundation for penetrating into the three major international markets of the USA, Japan and Canada. In Brazil, the Group has changed its distribution model into direct sales and achieved steady sales for the year. In India, the Group formed a joint venture with local enterprise to bring more MicroPort products to the Indian market through their matured sales network.

The Group's balloon product business maintained its growth momentum and recorded a revenue of US$10.6 million, representing a 4.0% increase from the corresponding period of last year (excluding the impact of foreign exchange). In the domestic market, three balloon products were sold in about 800 hospitals, representing 24.5% growth compared with the corresponding period of the previous year. In particular, the release of the Firefighter™ PTCA balloon catheter helped to add approximately 100 hospitals to the Group's business portfolio during the year, and its excellent performance was praised by industry experts. In the overseas markets, four balloon products expanded their global presence during the year by securing 24 registration certificates in 13 countries or regions.

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.

Globally, the Group's orthopedics devices business achieved sales of US$201.6 million, representing a 13.7% decline compared with the previous year (excluding the impact of foreign exchange). This was mainly caused by the postponement of elective surgery due to the outbreak of the COVID-19. During the Reporting Period, the Group continued its transformation to a direct sales model in suitable regions to achieve more effective sales management, while the domestic and overseas production and supply chain teams carrying out in-depth collaboration to enhance efficiency and reduce costs. The global orthopedics R&D team integrates resources to build a diversified layout of global orthopedic implants and tools.

During the Reporting Period, the international (non-China) orthopedics devices business recorded a revenue of US$171.7 million, representing a 16.8% decline compared with the previous year (excluding the impact of foreign exchange). Almost all overseas regions had demonstrated strong growth momentum at the beginning of the Reporting Period. Sales were significantly affected due to COVID-19 outbreaks in the second quarter. Sales momentum picked up quickly during the third quarter, with year-on-year growth resuming in a number of major markets. However, the volatility of the pandemic caused this to slow during the fourth quarter. Regionally, revenue from the US market dropped by 12.3% compared to the previous year (excluding the impact of foreign exchange), sales in some European direct sales territories were better than the market average, and revenue from Japan achieved an annual growth. During the year, the Group advanced its R&D projects and completed the design, development and approval for several new products, including PROFEMUR® cementless monolithic HA-coated collared GLADIATOR® femoral hip stem and PROFEMUR® cemented monolithic collared GLADIATOR® femoral hip stem obtained FDA approval in the US, while the PROCOTYL® P acetabular cup system, additional femoral heads of PROFEMUR® femoral stems, the new generation Evolution® NitrX™ Knee System for patients with allergies to certain metallic ions and Evolution™ stemmed CS Knee System also obtained CE marks, constantly enriching its product portfolio. In addition, domestic and overseas teams have worked together to optimise production efficiency and introduce automated equipment, effectively reducing production costs and customising ICE instruments for use with the sale of Evolution® knee joint products, significantly reducing instrument costs.

Orthopedics devices business in China recorded a revenue of US$29.9 million, representing an increase of 10.1% compared with the previous year (excluding the impact of foreign exchange), mainly benefited from a rapid growth of 93.3% in domestic joint product revenue (excluding the impact of foreign exchange). During the Reporting Period, the Group vigorously promoted the admission of domestic joints to hospitals, with 165 new hospitals for domestic knee joints and 178 hospitals for domestic hip joints. The domestic Bipolar Easy® Hemiarthroplasty System was certified and launched during the Reporting Period, which marked the completion of the Group's domestic primary joints replacement product line, and will accelerate the process of nationalization. The Group promoted with great effort its SuperPATH® hip replacement minimally invasive surgery, the world's first of its kind featuring quick recovery, as at the end of 2020, with more than 700 surgeons from over 550 hospitals in China receiving training for mastering and practicing the technique which will drive the implant business of the Group's hip replacement products. Revenue from the spine and trauma business continued to experience rapid growth. For example, the PKP balloon product, which was launched in 2019, is now sold in over 100 hospitals. During the year, the Group obtained approval for five surgical instrument kits and consistently improved its gross profit margin. The orthopedic instruments business saw better intra-group coordination during the Reporting Period and improvements to resource utilisation, which helped promote sales of joint products in China and abroad and further cost optimisation.

CRM BUSINESS

The CRM business principally develops, manufactures and markets products including pacemakers, defibrillators and cardiac resynchronisation therapy devices, and for the diagnosis, treatment and management of heart rhythm disorders and heart failure, and are committed to creating the world's leading all round CRM solutions.

Affected by the global pandemic, the CRM business recorded a revenue of US$180.3 million in 2020, representing a 16.2% (excluding the impact of foreign exchange) drop from the previous year. During the Reporting Period, the domestic and overseas teams coordinated to carry out R&D projects. The domestic pacemaker Rega™ effectively drove the recovery of the China business after the pandemic and the China CRM business achieved positive revenue growth for the year.

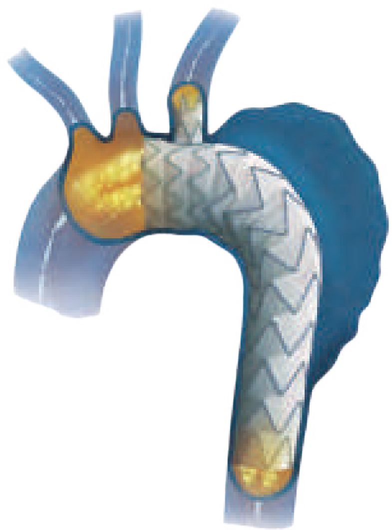
MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the international (non-China) CRM business generated steady positive results in January and February, but encountered severe challenges from mid-March due to the spread of COVID-19. Though the business showed signs of recovery in the third quarter, annual revenue decreased by 16.9% (excluding the impact of foreign exchange) to US$172.2 million, due to the resurgence of the pandemic. Remarkable success was achieved in Japan in transforming the direct sales model, creating steady growth momentum in each quarter. Facing COVID-19, by taking a flexible approach, the Group increased its investment in R&D, and gained excellent results during the year. The Group has submitted registration applications for the Alizea™, Borea™ and Celea™ pacemakers, all of which are equipped with Bluetooth and controllable by SmartView Connect™ – a remote monitoring instrument used at home – to European, US and Japanese authorities respectively, and obtained CE certification in January 2021, it will further provide support to their commercialisation. In the US, the entire Vega™ pacing lead pacemaker system, which is compatible with MRI, has been submitted for registration. Such move will significantly strengthen the Group's competitiveness in the US market. The CE registration for the ARC and 2D Navigo™ pacing leads, which is used in resynchronising the left ventricular, has also been submitted for registration. The Invicta™ defibrillation lead has undergone technical verification and commenced production. The Axone™ pacing lead, which is used in cardiac resynchronisation therapy, has entered Astral-4LV clinical trials and completed its first implantation. The Axone™ pacing lead will be a major breakthrough in the application of cardiac resynchronisation therapy in the treatment of heart failure.

MicroPort Soaring CRM (Shanghai) Co., Ltd ("MSC") manages the R&D, production and marketing of the CRM business in China. Revenue for the year was US$8.1 million, representing an increase of 1.8% over the previous year (excluding the impact of foreign exchange). Despite the impact of the pandemic in the first half of the year, the sales volume recovered in the second half of the year, with revenue up 15.5% (excluding the impact of foreign exchange) as compared to the same period of previous year. As the first domestic pacemaker with internationally leading quality, the Group's brand recognition for made-in-china pacemakers continued to grow and hospital penetiation was accelerated, with year on year growth in revenue of by 24.7% (excluding the impact of foreign exchange) during the Reporting Period. In 2020, domestic pacemakers paretrated 168 hospitals, and by end of 2020, domestic pacemakers has covered 480 hospitals, further solidified its market leading position. The Group also advanced its domestic R&D activities. For example, the Group submitted a registration application for Kora 100, a thoracic nucleus magnetic resonance compatible pacemaker. During the year, the BonaFire passive pacing lead completed its first enrolment, and the ENO™ series pacemaker and Vega™ pacing lead completed their type testing and the pre-market 1.5+3.0T whole body MRI compatible clinical trial will be launched soon. The leadless pacemaker project was also officially launched in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

ENDOVASCULAR AND PERIPHERAL VASCULAR DEVICES BUSINESS



The endovascular and peripheral vascular 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.

During the Reporting Period, the business maintained excellent growth momentum and recorded a revenue of US$68.5 million, representing a 40.9% increase compared with the previous year (excluding the impact of foreign exchange). In particular, the Castor® Branched Aortic Stent-Graft System ("Castor®"), the world's first thoracic branch stent, continued to maintain a rapid growth of sales volume owing to its remarkable clinical performance. During the Reporting Period, it is being applied by more than 550 hospitals in China. The Minos® Abdominal Aortic Aneurysm and Delivery System ("Minos®") and Reewarm® PTX Drug Balloon Dilation Catheter ("Reewarm®"), have advanced further in the hospital tendering process and contributed more revenue. The Company also strengthened its R&D efforts in peripheral area. In addition to Reewarm® during the Reporting Period, the venous stent system has also completed the first clinical implantation. At the same time, during the Reporting Period, the Group completed capital injection to its subsidiary, Shanghai Blue Vein Medical Technology Co., Ltd., and established a new wholly-owned subsidiary, Shanghai Hongmai Medical Technology Co. Ltd., to further increase its investment in research and development in the field of peripheral artery and venous vascular intervention.

In the international market, Minos® has entered the market of nine overseas countries and completed its first implantation in several European countries during the year. With its impressive clinical performance, the device had gained recognition from surgeons. Castor® completed its first implantation in Poland as its first overseas market. Hercules® Aneurysm and Delivery System and Reewarm® both obtained CE marks, further bolstering the international product portfolio, accelerating the expansion into overseas market and offering more high quality and affordable "Chinese Solutions" to patients around the world.

NEUROVASCULAR DEVICES BUSINESS

The neurovascular devices business specialises 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.

During the Reporting Period, benefitted from the continued rapid growth of Tubridge® Vascular Reconstruction Device ("Tubridge®") and contribution from other new products, the segment recorded a revenue of US$32.9 million, representing a year-on-year growth of 17.5% over the previous year (excluding the impact of foreign exchange). The Group also strengthened its promotion of the Tubridge® in major hospitals. Tubridge® has continued to expand its clinical application. With the introduction of the hierarchical medical system that leads to further market penetration, Tubridge® has continued to increase its market share by covering 100 new hospitals during the Reporting Period and accumulate 277 hospitals by the end of 2020. Since its launch, the APOLLO™ stent has leveraged its safety and effectiveness, cementing its absolute leadership in ischemic stroke treatments. The NUMEN® Coil Embolization System, the Bridge® Rapamycin Target Eluting Vertebral Artery Stent System and the U-track® Intracranial Support Catheter System – all of which obtained certification during the year – have also contributed to the segment's growth momentum and laid a solid foundation for a comprehensive solution for cerebral stroke. The Group obtained six registration certificates in four overseas countries during the Reporting Period, a further step towards its global business penetration.

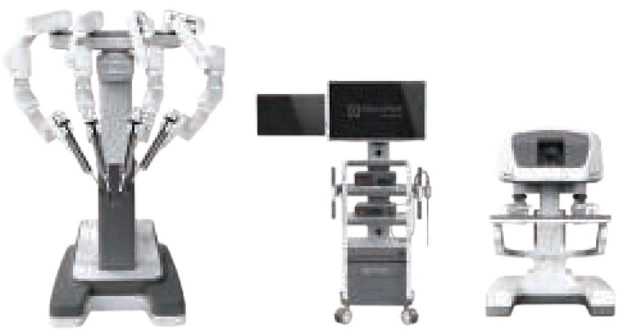
MANAGEMENT DISCUSSION AND ANALYSIS

HEART VALVE BUSINESS

The heart valve business focuses on the development and commercialization of innovative transcatheter and surgical solutions in the field of heart valve disease. The product on sale in this segment is the VitaFlow® Transcatheter Aortic Valve System ("VitaFlow®"), together with the self-developd Alwide™ balloon catheter and Alpass™ catheter sheath, providing a more comprehensive treatment solution for domestic surgeons.

During Reporting Period, the heart valve business recorded a revenue of US$15.2 million, an increase of 383.4% compared with the previous year (excluding the impact of foreign exchange). In the two years since its launch, the VitaFlow® has given excellent clinical performance and been well recognised by industry experts. As of the end of 2020, it was sold in 144 hospitals in 28 provinces and cities across the PRC, including 18 of the top 20 Transcatheter Aortic Valve Implantation ("TAVI") hospitals. It has secured the largest market share in some major hospitals and cemented a leading market position in some provinces. During the Reporting Period, the Group applied to the NMPA for the registration of the VitaFlow® II Transcatheter Aortic Valve an Retrieval System ("VitaFlow® II"), the second generation TAVI product. The Group has been taking measured steps to move its business abroad, which saw it obtaining registration certificates for VitaFlow® in Argentina and Thailand during the Reporting Period. VitaFlow® II has conducted clinical trials in Europe, becoming the only made-in-China TAVI product to do so. With multiple product lines, other than the TAVI product, the Group also has five transcatheter mitral valve ("TMV") products currently under development, aiming to penetrate the vast mitral regurgitation market.

SURGICAL ROBOT BUSINESS



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

In 2020, the Group bolstered its strategic presence in the surgical robot business by establishing a diversified product portfolio that covers five "golden tracks" of surgical robots, including endoscopy, orthopedics, vascular intervention, natural cavity and percutaneous puncture. Clinical breakthroughs have been made in various research and development projects during the Reporting Period. The Group's self-developed Toumai® Endoscopic Surgery Robotic System ("Toumai® Robot") has completed patient enrollment for clinical trials in January 2021, being China's first domestically manufactured endoscopic robot for multicenter clinical trials in the field of urology. The self-developed Skywalker™ Orthopedic Surgery Navigation and Positioning System ("Skywalker™ Orthopedic Robot") has entered the Green Path and started its first-in-man (FIM) clinical trial in June 2020. Additionally, the in-house developed DFVision® 3D Electronic Laparoscope and medical endoscope cold light were given clinical exemptions and have been submitted for registration. During the Reporting Period, the Group expanded into the fields of vascular robotics and percutaneous puncture robotics by investing in Robocath (a French vascular robotic company), NDR (a Singaporean percutaneous puncture robotic company) and Biobot (a Singaporean prostate puncture robotic company). In particular, the vascular robotic system has initiated type testing in China.

SURGICAL DEVICES BUSINESS

The surgical devices business focuses on extracorporeal circulation products used for cardiac surgery and occlusion series products used for congenital heart disease. These products include extracorporeal circulation series consumable products such as Oxygenation System (artificial lungs), occlusion series products used in congenital heart disease treatment (Atrial Septal Defect Occluder ("ASD Occluder") and Delivery System, Ductus Arteriosus Occluder ("PDA Occluder") and Delivery System, Ventricle Septal Defect Occluder ("VSD Occluder") and Delivery System) and general surgical polypropylene herniorrhaphy series products.

In 2020, the business recorded a revenue of US$4.6 million, an increase of 3.2% from the previous year (excluding the impact of foreign exchange). During the year, a new generation of membrane oxygenator completed the entire enrolment process and received excellent clinical feedback.

RESEARCH AND DEVELOPMENT ("R&D")

Effective R&D is a key driver for the sustainable development of a medical devices Group with a mission to "provide doctors with access to the best medical solutions for prolonging and reshaping the lives of patients". With the goal of import substitution and building Chinese our brands, the Group is committed to maintaining higher standards, introducing better practices, and R&D leading to innovative world-class 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 2020, the Group reaped fruitful rewards from its R&D projects with a total of 30 products obtaining registration certificates from the National Medical Products Administration (NMPA). Two products entered the Green Path. As of the end of 2020, the Group had a total of 20 products that have been approved to enter the Green Path, the most in medical device industry for six consecutive years. The Group also had 4 products obtaining approvals from FDA and 14 products obtaining CE marks in the overseas market.

For the cardiovascular devices business, the Firekingfisher® Coronary Rapamycin-Eluting CoCr Coronary Stent System, which has upgraded the delivery system based on Firebird2®, obtained certification during the year. A number of upgraded products were under development to further enrich the product line and better meet market needs. These include drug-coated balloons, coronary atherectomy catheter, microcatheter, intravascular lithotripsy balloon and intra-Aortic balloon pump system. For overseas market, at the PCR e-Course EuroPCR 2020, the Group released the latest three-year follow-up data for the TARGET All Comers (TARGET AC) clinical trial and two-year data for the Dual-Antiplatelet Therapy (DAPT) subgroup for Firehawk® stent. Results showed that Firehawk® can achieve identical clinical efficacy and safety with the first-in-class DES. The over one-year target lesion revascularisation failure (TLF) rates were lower and similar in both groups, and the stent thrombosis rates in the real-world population study were lower in the Firehawk® group. Two-year data for the DAPT subgroup of the TARGET AC study showed that the TLF rate in the DAPT interrupted treatment subgroup in the Firehawk® group had a lower trend than the control group. Results of the study were published online in EuroIntervention, an international medical journal. Additionally, the Group has officially launched the TARGET IV NA clinical study of the Firehawk® stent in the US and completed its first patient enrolment, representing a critical milestone in the product's overseas mainstream market expansion. The study programme plans to enroll approximately 1,616 patients from about 100 clinical centres in countries and regions such as the US, Canada, Europe and Japan, from whom it will collect five-year follow-up data to assess the safety and effectiveness of the Firehawk® stent. This will help Firehawk® to enter the three main markets of the US, Canada and Japan. Also, the Firesorb® Bioresorbable Rapamycin Target Eluting Coronary Scaffold System ("Firesorb®") commenced its Future-III clinical trial and has completed the first patient enrollment.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect to the international (non-China) orthopedics devices business, two products namely the Profemur® Cementless Monolithic HA-coated Collared Gladiator® Femoral Hip Stem and the Profemur® Cemented Monolithic Collared Gladiator® Femoral Hip Stem were approved in the US and Canada during the Reporting Period, together with the Profemur® Gladiator® Plasma Femoral Stem currently available in the market, a complete Gladiator® Femoral Stem product family has been formed. It can be applied to the Group's newly approved innovative AnteriorPATH® anterior hip arthroplasty, providing surgeons with more flexible options so that meet various demands of patients with only one set of device. The Procotyl® P Acetabular Cup System, additional femoral heads of Profemur® Femoral Stem product families, the Evolution® NitrX® Knee System and the Evolution® Stemmed CS Knee System obtained CE marks. Additionally, the multi-hole version and constrained liner of Prime® Acetabular Cup, the Dynasty® Dual Mobility Acetabular Cup and the Additive Manufactured Prime® Acetabular Cup have been submitted for FDA review. The Profemur® Cemented XM™ Femoral Stem has been submitted for CE registration. The Group introduced ICE tools for the Evolution® total knee replacement system to reduce costs. In China market, the made-in-China Goral™ Total Hip Arthroplasty System ("Goral™ System") obtained NMPA approval, and completed its first implantation during the Reporting Period. The Bipolar Easy® Hemiarthroplasty Bipolar System was also approved during the Reporting Period. This product can be used together with the Goral™ System, which complements the product line of domestic primary hip replacement system of the Group, and can meet the clinical needs of elderly patients with femoral neck fractures. Moreover, these two systems can be used in conjunction with the Group's unique SuperPATH® minimally invasive total hip arthroplasty. Besides, the Group's self-developed Tibial Resection Alignment System won the Reddot Best Design Award in 2020. The system features newly designed artificial knee replacement surgical instruments to help doctors perform tibia osteotomy alignment more quickly, and to accurately adjust the joints' position for better post-surgery clinical results. In the field of spinal trauma, the Piscis® II Injectable Artificial Bone Fusion Cage and Takin® II Hollow Spine Minimally Invasive System were launched in China during the Reporting Period.

In the CRM business, the Axone™ pacing lead can be used in cardiac resynchronisation therapy (CRT) for heart failure patients requiring the implantation of cardiac resynchronization pacemaker (CRT-P) or cardiac resynchronization defibrillator (CRT-D). During the year, the Group released pre-clinical research data for the animal model of the self-developed Axone™ Lead. The three-month follow-up data showed that the product offers good position fixation stability, electrical parameter performance and biocompatibility. The research data was published in the electronic catalogue of the 2020 Annual Meeting of American Heart Rhythm Society in the form of academic posters. The Group also commissioned the Astral-4LV clinical trial for the Axone™ pacing lead and the research data will be used to support the CE certification application. The entire pacemaker system with MRI-compatible Vega™ lead wire has been submitted for FDA registration, and the ARC and 2D Navigo™ lead wire for left ventricular resynchronization has also been submitted for CE registration. Invicta™ defibrillation lead has passed all technical verifications and entered the production stage. The new-generation Alizea™, Borea™ and Celea™ pacemakers equipped with Bluetooth and wireless remote monitoring functions, have all submitted CE registration data and approvals were obtained in January 2021. The Group also cooperated with a French enterprise for remote-controlled monitoring APP for data collection, aiming to improve the caring for heart failure patients through the application of intelligent system and ultimately to be able to detect early incidents of cardiac decompensation.

In the endovascular and peripheral vascular devices business, the self-developed Reewarm® PTX Drug Balloon Dilation Catheter has both obtained NMPA registration certificate. The new generation Fontus surgery stent system is under registration. As for the new generation Talos breast main stent system, a clinical follow-up was completed and registration materials submitted for consideration, while the venous stent system has completed its first clinical implantation. In the overseas market, following the approval of the EU CE certificate for the Minos® Bifurcated Stent-Graft System, Reewarm® and Hercules® Aneurysm and Delivery Systems have obtained the EU CE certificate during the Reporting Period, further strengthening our product lines in the EU and related overseas markets.

In the neurovascular devices business, the Tigertriever™ clot retriever of Rapid Medical ("Tigertriever™"), which is invested by the Group, has been granted Green Path status. The Bridge® Rapamycin Target Eluting Vertebral Artery Stent System, the NUMEN® Coil Embolization System and the U-track® Intracranial Support Catheter System have all obtained NMPA registration certificates. These products will provide doctors and patients with more options and create an integrated neurovascular solution.

In the heart valve business, the Group submitted an application for the registration of VitaFlow® II while commencing its clinical trial in Europe. VitaFlow®" obtained certificates for launch in Argentina and Thailand, gradually expanding its global presence. The Group released the first four-year clinical data for VitaFlow® applicable to patients with severe aortic valve calcification in China, and confirmed the safety and efficacy of VitaFlow® for the treatment of patients with severe aortic calcification. The Group further bolstered its product mix by extending its presence in aortic valve, mitral valve, tricuspid valve, surgical valve and surgical ancillary products, offering a comprehensive treatment solution for valvular heart diseases. Animal research on the Group's self-developed TMV replacement products has commenced and positive results were observed in the three-month follow-up study. The Group invested in ValCare and Amend™, the TMV restoring product jointly developed by the Group with ValCare is undergoing feasibility study in human body, the first phase of multi-regional clinical trial (MRCT) in humans was completed in Israel and Europe. Corona™, a TMV replacement product developed jointly with ValCare, is in the process of animal research. Initial stage of human feasibility study on AltaValve™, an innovative TMV replacement medical device under development by 4C Medical, another investment of the Company, has been launched.

In the surgical robot business, Toumai® Robot assisted clinical experts to achieve a number of breakthroughs with important clinical value and milestone significance, including the first robot-assisted partial nephrectomy, extraperitoneal radical prostatectomy, partial nephrectomy for completely endophytic renal tumor combined with intraoperative ultrasound, and the first robot-assisted single-port procedure on 1 January 2021, which proved that the made-in-China endoscopic surgery robot is capable of assisting surgeons to perform complex surgeries in limited anatomical space, being the first product of domestic intelligent manufacturing in this field. The Group's self-developed Skywalker Orthopedic Surgery Navigation and Positioning System entered the Green Path and completed a robot-assisted total knee replacement surgery in June 2020, marking the first-in-man ("FIM") clinical trial of Skywalker Orthopedic Robot to be enrolled for the first time. Skywalker™ Orthopedic Robot has completed patient enrollment for clinical trials in January 2021, being the first total knee replacement robot designed and developed in China that has completed case enrollment for pre-marketing multicenter clinical trial.

MANUFACTURING

In 2020, the Group continued to focus on the refined management of the supply chain process and the digitalized construction of the production process by implementating a series of automation and digital transformation measures on the production process while actively deploying overseas factory construction, so as to meet the needs of the Group's globalized operation. Moreover, the Group continued to incorporate green and sustainable development into its business philosophy, actively promoted environmental management and clean production, and was committed to creating an eco-friendly management and development model.

QUALITY ASSURANCE

Quality is a fundamental value of the Group, as human lives depend on the quality of its products. The Group has established and continued to maintain a quality management team to carry out quality management in different dimensions throughout the product life cycle. At the same time, the Group has also established a Quality and Standardization Committee, which insists on combining R&D and standard formulation to ensure that there are "standards to be followed, and standards must be followed", so as to ensure the establishment and perfect operation of the organization's quality system.

In 2020, through a series of measures such as standardizing laboratory quality control and improving the intelligent level of quality testing, the Group ensured that the Company's products meet the requirements of regulatory agencies and the expectations of patients. The excellent quality brand of the Group was fully recognized by the society. In recent years, the Group has received a series of important awards and honours, including the Golden Quality Award of Shanghai Municipality in 2018, the Quality Benchmark of Shanghai Municipality and the National Quality Benchmark in the consecutive years of 2019 and 2020. The Group was also the only Chinese enterprise awarded the 2020 Global Performance Excellence Award (Best in Class) by Asia Pacific Quality Organization (APQO) for two consecutive years.

COMPETITION

The environment in which the Group operates is constantly evolving. As a market leader among PRC medical device manufacturers, it faces both domestic and international competition. In response, the Group pursues an independent course of innovation in order to strengthen its core competitiveness and create high-quality products that enable it to maintain its leadership. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

INTELLECTUAL PROPERTY

Intellectual property is an important intangible asset of the Group and also an inherent driver to enhance its core competitiveness in the medical devices market. Thus, while being committed to technological innovation, the Group also regards intellectual property protections such as patent application, trademark registration, business secrets control and copyright registration as vital and conducive to the Group's healthy and sustainable long-term development. In 2020, the Group filed 988 patent applications and 582 trademark applications domestically and internationally. As of the end of 2020, the Group held a total of 5,097 patents (including applications) covering 28 countries and 2,766 trademarks covering 66 countries.

FINANCIAL REVIEW

OVERVIEW

Faced with an increasingly fierce competition in the rapidly growing medical device industry in China and abroad as well as the impact of the COVID-19 pandemic, the revenue of the Group decreased by 18.2% for the year ended 31 December 2020 as compared to the year ended 31 December 2019. The Group persisted in providing a diversified product portfolio and pursued the Group's globalization strategy with non-China sales contributing to 55.4% of the total revenue. The Group aims to continuously bring its innovations, technologies and services to millions of global patients and become a patient oriented global enterprise capable of leading minimally invasive and other emerging medical technologies.

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

REVENUE

US$'000	**Financial year ended**		**Percent change**	
	2020	2019	in US$	excluding the foreign exchange impact
Cardiovascular devices business	**144,760**	264,633	(45.3%)	(44.6%)
Orthopedics devices business	**201,608**	232,441	(13.3%)	(13.7%)
CRM business	**180,299**	209,025	(13.7%)	(16.2%)
Endovascular and peripheral vascular devices business	**68,487**	48,527	41.1%	40.9%
Neurovascular devices business	**32,933**	27,631	19.2%	17.5%
Heart valve business	**15,204**	3,119	387.5%	383.4%
Surgical devices business	**4,627**	4,695	(1.4%)	3.2%
Other business *(Note)*	**814**	3,422	(76.2%)	(76.7%)
Total	**648,732**	793,493	(18.2%)	(18.8%)

Note:

Other business did not meet the quantitative thresholds for determining reportable segments.

The Group's revenue for the year ended 31 December 2020 was US$648.7 million, decreasing by 18.2% compared to US$793.5 million for the year ended 31 December 2019. The Group's reported revenue was impacted by translation from functional currencies of the Group's subsidiaries to US$, the presentation currency of the Group, due to the appreciation or depreciation of US$ against functional currencies. Excluding the foreign exchange impact, the Group's revenue declined by 18.8%. Such decrease was primarily driven by the impact of (i) the postponement of outpatient visits and surgeries in medical institutions resulting from the COVID-19 pandemic, (ii) and the provision for price subsidy with reference to the 2021 implementation price for stent products that have been sold but not yet implanted in the channels due to centralized procurement policy for coronary stents of the PRC in the fourth quarter. The following discussion is based on the Group's major business segments.

— CARDIOVASCULAR DEVICES BUSINESS

The Group's cardiovascular devices business recorded a revenue of US$144.8 million for the year ended 31 December 2020, representing a decrease of 44.6% (excluding the foreign exchange impact) or a decrease of 45.3% (in US$) compared to the year ended 31 December 2019. Such decrease was mainly attributable to (i) the postponement of outpatient visits and surgeries in medical institutions due to the impact of the COVID-19 pandemic, resulting in a year-on-year decrease in the number of implants, and (ii) the provision for price subsidy with reference to the 2021 implementation price for stent products that have been sold but not yet implanted in the channels due to centralized procurement policy for coronary stents of the PRC in the fourth quarter.

— ORTHOPEDICS DEVICES BUSINESS

US$'000	**Financial year ended**		**Percent change**	
	2020	2019	in US$	excluding the foreign exchange impact
Orthopedics Devices Business	**201,608**	232,441	(13.3%)	(13.7%)
– US	**81,260**	92,641	(12.3%)	(12.3%)
– Europe, Middle East and Africa	**39,507**	55,672	(29.0%)	(30.1%)
– Japan	**36,045**	35,127	2.6%	0.5%
– the PRC	**29,903**	26,939	11.0%	10.1%
– Others	**14,893**	22,062	(32.5%)	(30.0%)

The Group's orthopedics devices business recorded a revenue of US$201.6 million for the year ended 31 December 2020, representing a decrease of 13.7% (excluding the foreign exchange impact) or 13.3% (in US$) compared to the year ended 31 December 2019. Such decrease was mainly attributable to the postponement of outpatient visits and surgeries in medical institutions due to the impact of the COVID-19 pandemic, resulting in a year-on-year decrease in the number of implants.

CRM BUSINESS

US$'000	Financial year ended		Percent change	
	2020	2019	in US$	excluding the foreign exchange impact
CRM Business	**180,299**	209,025	(13.7%)	(16.2%)
– US	**2,061**	4,278	(51.8%)	(51.8%)
– Europe, Middle East and Africa	**161,118**	190,488	(15.4%)	(18.1%)
– Japan	**5,951**	2,707	119.8%	117.8%
– the PRC	**8,104**	7,967	1.7%	1.8%
– Others	**3,065**	3,585	(14.5%)	(16.2%)

CRM business recorded a revenue of US$180.3 million for the year ended 31 December 2020, representing a decrease of 16.2% (excluding the foreign exchange impact) or 13.7% (in US$) compared with the year ended 31 December 2019. Such decrease was mainly attributable to the postponement of outpatient visits and surgeries in medical institutions due to the impact of the COVID-19 pandemic, resulting in a year-on-year decrease in the number of implants.

ENDOVASCULAR AND PERIPHERAL VASCULAR DEVICES BUSINESS

The Group's endovascular and peripheral vascular devices business achieved a revenue of US$68.5 million for the year ended 31 December 2020, representing a growth of 40.9% (excluding the foreign exchange impact) or a growth of 41.1% (in US$) compared with the year ended 31 December 2019. Such growth was mainly attributable to: (i) the Group's main products, Hercules® and Castor®, are thoracic aorta products and were mildly impacted by the COVID-19 pandemic as thoracic aorta operations were mainly emergencies; (ii) positive market recognition and enhanced competitiveness of the Group's endovascular products in aortic aneurysm and endovascular treatment market attributable from Castor®, the world's first thoracic branch stent-graft system.

NEUROVASCULAR DEVICES BUSINESS

The Group's neurovascular devices business recorded a revenue of US$32.9 million for the year ended 31 December 2020, representing a growth of 17.5% (excluding the foreign exchange impact) or a growth of 19.2% (in US$) compared with the year ended 31 December 2019. Such increase was mainly attributable to: (i) rapid growth from Tubridge®, the first flow diverting stent approved for product launch in China; (ii) the revenue contribution of newly launched product, the NUMEN® Coil Embolization System; and (iii) rapid growth of an agent product, neurovascular guide wire ASAHI.

HEART VALVE BUSINESS

The Group's heart valve business recorded a revenue of US$15.2 million for the year ended 31 December 2020, representing a growth of 383.4% (excluding the foreign exchange impact) or a growth of 387.5% (in US$) compared with the year ended 31 December 2019. The VitaFlow® valve system was approved for launch in the second half of 2019 and the Group continued to implement targeted sales plans and market strategies to promote the launch and highlight the competitive advantages. The VitaFlow® valve system quickly gained market share with positive market recognition.

— SURGICAL DEVICES BUSINESS

The Group's surgical devices business recorded a revenue of US$4.6 million for the year ended 31 December 2020, representing a growth of 3.2% (excluding the foreign exchange impact) or a decline of 1.4% (in US$) compared with the year ended 31 December 2019.

— OTHER BUSINESS

The Group's other business recorded a revenue of US$0.8 million for the year ended 31 December 2020, representing a decrease of 76.7% (excluding the foreign exchange impact) or a decrease of 76.2% (in US$) compared with the year ended 31 December 2019. The other business did not meet the quantitative thresholds for determining reportable segments.

COST OF SALES

For the year ended 31 December 2020, the Group's cost of sales was US$212.7 million, representing a 7.1% decrease compared with US$229.1 million for the year ended 31 December 2019. Such decrease was primarily attributable to the decreased sales volume of the major businesses.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing factors, the Group's gross profit decreased by 22.7% from US$564.4 million for the year ended 31 December 2019 to US$436.0 million for the year ended 31 December 2020. Gross profit margin is calculated as gross profit divided by revenue. The Group's gross profit margin decreased to 67.2% for the year ended 31 December 2020 as compared to 71.1% for the year ended 31 December 2019, primarily attributable to the increase in unit manufacturing costs due to decreased production of major businesses as a result of the impact of the COVID-19 pandemic, and the provision for price subsidy for stent products in the channels.

OTHER NET INCOME

The Group recorded other net income of US$32.9 million for the year ended 31 December 2020, representing a 76.4% increase as compared to US$18.7 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in government grant and the refund of approximately US$16.4 million from arbitration over the purchase price for the acquisition of the CRM business from LivaNova in 2018. The Adjustment Amount was fully received by the Group and recognised in profit or loss directly.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by 27.2% from US$151.5 million for the year ended 31 December 2019 to US$192.6 million for the year ended 31 December 2020. Such increase was primarily due to the increased investments in the on-going and newly kicked off research and development projects.

DISTRIBUTION COSTS

Distribution costs decreased by 7.7% from US$275.3 million for the year ended 31 December 2019 to US$254.1 million for the year ended 31 December 2020. Such decrease was primarily attributable to the corresponding decrease in marketing activities and sales commission due to the impact of the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 42.5% from US$119.3 million for the year ended 31 December 2019 to US$170.1 million for the year ended 31 December 2020. The increase was mainly attributable to the impact of the incentive shares granted to certain employees (including an executive director) pursuant to the Share Award Scheme of the Group.

OTHER OPERATING COSTS

Other operating costs increased by 130.5% from US$8.5 million for the year ended 31 December 2019 to US$19.7 million for the year ended 31 December 2020. The increase was mainly due to the increased professional fees relating to investing and financing activities.

FINANCE COSTS

Finance costs increased by 75.0% from US$22.7 million for the year ended 31 December 2019 to US$39.7 million for the year ended 31 December 2020. The increase was mainly attributable to the accrued finance cost of the voting redeemable preferred shares issued by the Group's heart valve business and CRM business.

INCOME TAX

Income tax decreased from US$34.2 million for the year ended 31 December 2019 to US$10.4 million for the year ended 31 December 2020, which was primarily due to the decrease in profit before tax.

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 the 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 2020, the Group had US$1,002.1 million of cash and cash equivalents on hand, as compared to US$280.1 million as of 31 December 2019. The increase was mainly attributable to the completion of placing new shares by the Company, and the completion of several equity financing and introduction of new strategic investors in the surgical robot business, heart valve business, CRM business and orthopedics devices business. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

BORROWING AND GEARING RATIO

Total borrowings of the Group, including interest-bearing borrowings and convertible bonds, as at 31 December 2020 were US$241.5 million, representing a decrease of US$161.8 million as compared to US$403.3 million as at 31 December 2019. Such decrease was driven by a significant enlargement of the Group's equity base from equity financing and the partial repayment of bank loans with sufficient liquidity. The gearing ratio (calculated as total bank borrowings and convertible bonds divided by total equity) of the Group as at 31 December 2020 decreased to 17.4% from 61.7% as at 31 December 2019, as a result of a significant enlargement of the Group's equity base from equity financing and partial loan repayments.

NET CURRENT ASSETS

The Group's net current assets as at 31 December 2020 were US$960.5 million, as compared to US$309.2 million as at 31 December 2019.

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 2020, the Group recorded a net exchange gain of US$2.0 million, as compared to a net foreign exchange gain of US$0.2 million for the year ended 31 December 2019. 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 2020, the Group's total capital expenditure amounted to approximately US$120.4 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 2020, the Group had mortgaged its manufactory buildings held for own use and right-of-use assets for the purpose of securing bank loans with a carrying value of US$99.0 million.

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.

PROSPECTS

Continuing improvements to incomes and living standards and ageing populations are driving a 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. This has also attracted more multinational corporations to the market, resulting in fierce competition. The Group will further implement competitive strategies which include but are not limited to the following:

1. Strengthening the Group's leadership in the domestic medical devices market. The Group will leverage its brand recognition and sales distribution network to further expand its market share and solidify its 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". It will integrate global resources with the market to complete its global planning and introduce products to more countries and regions around the world.

3. Developing and improving existing products, achieving product diversification through innovation. The Group will further develop and improve the performance and manufacturing technology of existing products, foster R&D toward products of the next generation. The Group will make further progress with clinical trials and obtaining approvals for new products to diversify the product mix and provide high-quality and affordable integrated medical solutions to patients and doctors.

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang (常兆華博士), born in 1963, is the Chairman, Executive Director and Chief Executive Officer of the Company. He has over 30 years' experience in the medical device industry, and currently also serve as a full professor at School of Medical Device, University of Shanghai for Science and Technology. Before establishing Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械(集團)有限公司) ("MP Shanghai") in 1998, from 1996 to 1997, Dr. Chang served as Vice President of R&D at Endocare Inc., a NASDAQ listed medical device company based in California, U.S.. From 1990 to 1995, he served as Senior Engineer, Chief Scientist, Director of R&D and Vice President of Engineering at Cryomedical Sciences Inc., a public medical device company in Maryland U.S.. Dr. Chang received his bachelor's degree in refrigeration engineering in 1983 and master's degree in cryogenic engineering in 1985, both from University of Shanghai for Science and Technology. In 1992, he received his doctoral degree in Biological Science from State University of New York (Binghamton). Dr. Chang has published extensively in biomedical fields and holds several dozens of patents in the United States and in China.

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida (蘆田典裕), born in 1954, is a Non-executive Director of the Company. Mr. Ashida has served as a Director since 1 November 2006. He is currently holding directorship in certain subsidiaries of the Group. Mr. Ashida is also an Advisor of Otsuka Medical Devices Co., Ltd. ("OMD") and a Director of KISCO. OMD and KISCO are subsidiaries of Otsuka Holdings Co., Ltd ("Otsuka Holdings"). He had served as a Director of OMD from February 2011 to March 2019. Mr. Ashida was an Executive Operating Officer of Otsuka Holdings and the Director of its business development and planning department until 2015. Before joining Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") in April 2003, he was a general manager of Mizuho Corporate Bank Ltd. from 2002 to 2003. From 1999 to 2002, Mr. Ashida was a general manager of the Industrial Bank of Japan ("IBJ"), where he headed the credit department for western Japan. From 1995 to 1999, Mr. Ashida served as Vice President responsible for business development at 3iBJ Ltd., a venture capital firm formed by 3i Group plc and IBJ. From 1989 to 1995, Mr. Ashida was a Senior Vice President of IBJ (Canada). He joined IBJ in 1977 in its Tokyo branch. Mr. Ashida received his bachelor's degree in economics from the University of Tokyo in 1977.

Dr. Yasuhisa Kurogi (黑木保久), born in 1964, is Head of Business Development of Otsuka Holdings, a substantial Shareholder of the Company. Dr. Kurogi is currently holding directorship in certain subsidiaries of Otsuka Holdings. He is also a director of the Licensing Executive Society JAPAN. Before joining Otsuka Holdings in August 2017, he was a deputy director of Business Development of Otsuka Pharmaceutical Co., Ltd ("Otsuka Pharmaceutical") from 2015 to 2017. From 2007 to 2015, he was responsible for business development at Astex Pharmaceutical, Inc. and OPC. From 1992 to 2007, he was responsible for Research & Development at Cambridge Isotope Laboratories, Inc., Otsuka Maryland Research Laboratory, Inc., OPC, and Otsuka Pharmaceutical Factory, Inc. Dr. Kurogi received his Ph.D. degree in medicinal chemistry from the Hiroshima University in 1992 and was a fellow at Okazaki National Research Institutes in 1990. He also was a visiting lecturer of Tohoku University in 2000.

Mr. Hongliang Yu (余洪亮), born in 1974, was appointed as our Non-executive Director on 21 June 2018. Mr. Yu is currently the general manager of Zhangjiang Science & Technology Venture Capital Co., Ltd. Mr. Yu joined Shanghai Zhangjiang (Group) Co., Ltd. in November 2000, and successively served as the vice manager and executive vice manager of investment management department of Shanghai Zhangjiang (Group) Co., Ltd., vice general manager of Shanghai Zhangjiang Biotech & Pharmaceutical Base Development Co., Ltd., vice general manager of Shanghai Zhangjiang Science & Technology Venture Capital Co., Ltd. and general manager of Shanghai Zhangjiang Technology Microfinance Co., Ltd.. Mr. Yu graduated from East China University of Metallurgy majoring in Ferrous Metallurgy with a bachelor degree in July 1996, and graduated from University of Shanghai for Science and Technology majoring in management engineering with a master degree in April 2001. Mr. Yu holds the professional title of economist and qualification of certified public accountant.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou (周嘉鴻先生), born in 1964, was appointed as our independent non-executive Director ("INED") on 3 September 2010. He is a seasoned finance and operations executive with more than 30 years of professional experience from banking to various senior leadership positions with Fortune 500 companies. These companies include Honeywell International, Tyco (ADT), Lucent Technologies/Bell Labs, and Public Service Enterprise Group (PSEG). His publicly listed company CFO roles include CFO for Feihe International, where his efforts led to a successful listing on the Main Board of the New York Stock Exchange in 2009. He held the CFO plus other C-level roles from 2010 to 2018 for Kulicke & Soffa Industries, Inc. (NASDAQ: KLIC), a leading provider of semiconductor packaging and electronic assembly solutions supporting the global automotive, consumer, communications, computing, and industrial segments. More recently in January 2021, Mr. Chou was appointed as an independent non-executive director of MicroPort CardioFlow Medtech Corporation, a subsidiary of the Company, which gained successful listing on the Hong Kong Stock Exchange on February 4, 2021. Mr. Chou joined the Singapore headquartered UTAC Group in February 2021 as its CFO. The UTAC Group is an independent provider of assembly and test services for a broad range of semiconductor chips offering a full range of semiconductor assembly and test services. Mr. Chou holds an MBA from Duke University's Fuqua School of Business and a B.A. from the University at Buffalo.

Dr. Guoen Liu (劉國恩博士), born in 1957, was appointed as our Independent Non-executive Director on 3 September 2010. Dr. Liu is a noted scholar in the fields of health and development economics, health reform and pharmaceutical economics. Dr. Liu currently serves as Peking University BOYA Distinguished Professor of Economics, Dean of Peking University Institute for Global Health and Development, MOH Yangtze River Scholar professor of economics at the Peking University National School of Development. From 2000 to 2006, Dr. Liu was tenured associate professor of University of North Carolina at Chapel Hill. From 1994 to 2000, Dr. Liu was assistant professor of University of Southern California. Dr. Liu also serves as editor or associate editor in various journals in the field of health economics and pharmaceutical economics. Dr. Liu received his bachelor's degree in mathematics from Southwestern University for Nationalities in 1981, his master's degree in statistics from Southwestern University of Finance and Economics in 1985, his Ph.D. in economics from the City University of New York Graduate Center in 1991, and post-doctoral training in health economics from Harvard University in 1994.

Mr. Chunyang Shao (邵春陽), born in 1964, was appointed as our INED on 23 September 2016. Mr. Shao is currently a partner of JunHe LLP and a member of the All China Lawyers Association and Shanghai Bar Association. Mr. Shao specializes in practice such as corporate, foreign investment, real estate, mergers and acquisitions, securities, infrastructure and project finance. From July 1988 to October 1993, Mr. Shao worked in Anhui Foreign Economy Law Office. From November 1995 to March 2002, Mr. Shao worked in the London, Hong Kong and China offices of major international law firms, including in Simmons & Simmons as PRC legal counsel and Sidley Austin as a senior PRC legal consultant. Mr. Shao joined JunHe LLP in April 2002. Mr. Shao is currently the independent director of Changjiang & Jinggong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司, a company listed on Shanghai Stock Exchange (stock code: 600496)), Zhejiang Aishida Electric Co., Ltd. (浙江愛仕達電器股份有限公司, a company listed on Shenzhen Stock Exchange (stock code: 002403)) and Pharma Resources Shanghai Co., Ltd. (上海泓博智源醫藥股份有限公司). Mr. Shao received his bachelor degree in law from East China University of Political Science and Law in 1987, and was admitted to practice PRC law in 1988. From 1993 to 1994, Mr. Shao worked as visiting lawyer in Sino-Britain Young Lawyers' Exchange Program in the UK. In 2002, he received his master degree in law from East China University of Political Science and Law.

SENIOR MANAGEMENT

The Company currently consists of three geographically distinctive operational units which are Greater China Executive Committee ("CEC"), InterContinental Orthopedics Committee ("IOC") and InterContinental CRM Committee ("ICC"). The above committees are under management of Dr. Zhaohua Chang (常兆華), Executive Director, the Founder, Chairman and CEO of the Company and MP Shanghai. Please refer to the section headed "Directors-Executive Director" above for the details of his biography.

GREATER CHINA EXECUTIVE COMMITTEE

Mr. Bo Peng (彭博), is the Chief Marketing Officer of Shanghai MicroPort Medical (Group) Co., Ltd. and the Chairperson of CEC. Prior to current position, Mr. Peng served as Senior Vice President of Domestic Sales and Marketing of the Company. Mr. Peng has over 22 years of experience in marketing and sales. Prior to joining the Company in 2001, Mr. Peng served as the Director, Vice President and Sales General Manager of Xianxing Electronics Group. Mr. Peng received his bachelor's degree in Computer Science from Changchun University of Science and Technology in 1990 and his master's degree in Business Administration from Shanghai University of Finance & Economics in 2003.

Mr. Hongbin Sun (孫洪斌), is the Chief Financial Officer of the Company, the Co-Chairperson of CEC and a member of ICC. Mr. Sun has over 23 years of finance experience. Mr. Sun was the Director and General Manager of Otsuka China from 2006 to 2010. From 2004 to 2006, he served as a Financial Director of Otsuka China. From 1998 to 2003, Mr. Sun was an Assistant Manager of the Shanghai office of KPMG. Mr. Sun is a member of the Chinese Institute of Certified Public Accountants and is also a Chartered Financial Analyst. Mr. Sun received his bachelor's degree in Economics from Shanghai Jiao Tong University in 1998.

Dr. Qiyi Luo (羅七一), is the Chief Technology Officer ("CTO") of the Company and a member of CEC and ICC. Dr. Luo has over 29 years of experience in the medical device industry. Prior to joining the Company in 2003, he worked as a Principal Research and Development Engineer and a Senior Manufacturing/Development Engineer at Medtronic AVE from 1995 to 2002. From 1991 to 1995, he worked as a Supervisor and an Engineer of the angioplasty research and development team at Vas-Cath Inc., a subsidiary of C.R. Bard, Inc.. Dr. Luo is the inventor or a co-inventor of over 200 patents in China, the United States, Japan and the European Union. Dr. Luo received his bachelor's degree in Applied Science from Yunnan University of Technology in 1983, his master's degree in Applied Science from Queen's University in Canada in 1990 and doctor's degree in Biomedical Engineering from University of Shanghai for Science and Technology in 2015.

Mr. Yimin Xu (徐益民), is Executive Vice President of Regulatory Affairs & Property Management of Shanghai MicroPort Medical (Group) Co., Ltd. and a member of CEC. Prior to current position, Mr. Xu has served as Vice President of Quality and Regulatory of the Company. He has over 20 years of experience in medical device industry. Prior to joining us in 2000, Mr. Xu served as project manager in Shanghai Zhangjiang Hi-Tech Development Co., Ltd. and Shanghai Zhangjiang Hi-Tech Innovation Centre, from 1995 to 2000. Mr. Xu also served as quality engineer in Nanjing No.2 Air Compressor Factory from 1988 to 1992. Mr. Xu received his master's degree in Mechanical and Electronic Engineering from Shanghai Jiao Tong University in 1995.

Dr. Chengyun Yue (樂承筠), is the Senior Vice President of Business Development and Project Management of MP Shanghai and a member of CEC. Prior to current position, Dr. Yue has served as First Vice President of Business Development and Project Management, Vice President of Planning and Project Management, Senior Director of Project Management Office, and Director of R&D Support of the Company. Before joining the Company, Dr. Yue worked in a Biotech company in Southern California for 7 years for developing islets transplantation product. Dr. Yue received both her bachelor's and master's degree from Nanjing University, Ph.D. in Material Science from University of Alabama, and conducted her postdoctoral research in Biomedical Engineering at the California Institute of Technology.

Mr. Yiyun Que (闕亦雲), is the Senior Vice President of Supply Chain of Interventional Cardiology of MP Shanghai and a member of CEC. Prior to current position, Mr. Que served as First Vice President of Coronary Manufacturing and Engineering, Vice President of Manufacturing and Engineering of the company and has over 14 years' experience in medical device industry. Prior to joining the Company in 2006, Mr. Que served as an engineering manager in Shanghai Lenovo Electronic Co., Ltd. Mr. Que received his bachelor's degree in Industrial Engineering from Sichuan University in 2001 and his master's degree in Biomedical Engineering from University of Shanghai for Science and Technology in 2015.

Dr. Linda Lin (林映卿), is the First Vice President of Overseas Business of Shanghai MicroPort Medical (Group) Co., Ltd. and a member of CEC. Dr. Lin has over 25 years of experience in healthcare industry. Prior to joining the Group in 2013, Dr. Lin served as Director of RA&QA, Health Economics and Government Affairs for Boston Scientific China, International Marketing Manager for Boston Scientific HQ in United State and Marketing Manager of coronary business in China. Dr. Lin also worked as the General Manager for Foreign Government Loan Business for GE Healthcare China; she was responsible for the management of large projects involving interest-free loans from foreign governments to Chinese medical institutions. Dr. Lin graduated from Guangdong Foreign Normal University; she received her postgraduate degree in Accounting from Tianjin Institute of Finance and Economics in 1999, and her doctor's degree in business administration from Belgium United Business Institutes in 2011.

INTERCONTINENTAL ORTHOPEDICS COMMITTEE

Ms. Glendy Wang (王固德), is the Chief Operating Officer of the Company, Chairperson of IOC. Ms. Wang has more than 39 years of experience in the medical device industry. Before joining the Company, from 1997 to 2016, Ms. Wang served as Managing Director of Greater China at Smith & Nephew, based in Shanghai. From 1996 to 1997, she served as Business Director of China and Hong Kong at Becton Dickinson, based in Beijing. From 1982 to 1989, Ms. Wang served as a Franchise Manager at Johnson & Johnson Ethicon, based in Taiwan. Ms. Wang graduated from Taiwan Christ's college in 1981 and majored in business management. She also finished leadership program in INSEAD.

Mr. Benny Hagag, is the President of MicroPort Orthopedics Inc. and Co-Chairperson of IOC. Mr. Hagag is a highly experienced medical device executive, with over 25 years leading a multitude of business functions with a deep background in R&D and business development. One of Benny's most notable accomplishment is the co-founding of MAKO Surgical Group, an orthopedic company, focused in the development of robotic platform and implants for joint replacement surgeries. Mr. Hagag joined Stryker following its acquisition of MAKO in 2013 as the International General Manager and Vice President for the MAKO robotic business. Most recently, he was the General Manager and Vice President for Stryker Asia Pacific for the MAKO business, based in Hong Kong. Mr. Hagag holds a Bachelor's Degree in Aerospace Engineering and a Master of Business Administration with a focus on High Technology, both from Technion in Israel.

Mr. Jonathan Chen, is the Chief International Business Officer ("CIBO") of the Company, Chairperson of ICC and a member of IOC. Prior to current positions, he has served as the Executive Vice President of International Operations and Investor Relations of the Company. Mr. Chen's primary responsibilities include expanding the Company's International business in markets of the U.S, Europe, Asia Pacific and South America. Mr. Chen has over 24 years of experience in the medical device industry. Prior to joining the Company, Mr. Chen worked for Angiotech Pharmaceuticals, Inc. for 6 years, where he was Senior Vice President of Business Development & Financial Strategy. He led the management team to build a diversified medical products business through several transformational acquisitions and licensing transactions. Prior to joining Angiotech, Mr. Chen was a life sciences investment banker for Credit Suisse and Alex. Brown & Sons. He helped his clients raise in excess of $2 billion in equity and debt capital and advised on over $3 billion in Mergers & Acquisitions transactions. Mr. Chen holds a Bachelor of Arts degree in Economics and a Bachelor of Sciences degree with honors in Biological Sciences from Stanford University.

Mr. Todd Smith, is the Vice President of Finance of MicroPort Orthopedics Inc. and a member of IOC. Following the Company's asset purchase of Wright Medical Technology's OrthoRecon Business in January 2014, he serves as Vice President of Finance of MicroPort Orthopedics Inc. Prior to his current position, Mr. Smith had been Wright's Senior Director of Strategic and Financial Planning from 2011 to 2014; from 2001 to 2010, he served as Wright's Director and Senior Director of International Finance. Prior to joining Wright, Mr. Smith was the Vice President and Finance Controller of Vision America, Inc. and was an audit staff in the Memphis office of KPMG. He holds a Bachelor of Arts degree at Rhodes College and is a member of the American Institute of Certified Public Accountants (AICPA).

INTERCONTINENTAL CRM Committee

Mr. Jonathan Chen, CIBO of the Company, Chairperson of ICC and a member of IOC. Please refer to the above for the details of his biography.

Mr. Benoît Clinchamps, is President of MicroPort CRM and Co-Chairperson of ICC. Mr. Benoit Clinchamps has 22 years of experience in the medical device industry and 9 years of experience in the aerospace industry. Previously, Mr. Clinchamps served as Vice-President & General Manager of the CRM business in LivaNova and he served as Vice-President for Product Development & Regulatory Affairs, Vice President for Quality Assurance & Regulatory Affairs, Director of Plant Manager and Quality Assurance & Regulatory Affairs in Sorin group. Prior to joining Sorin group, Mr. Clinchamps spent 6 years at GE Healthcare and was the Director of Operations in Europe where he was 6 Sigma Champion. Before entering into the healthcare and medical product industry, Mr. Clinchamps served as Project Manager in several international projects in the aerospace industry. Mr. Clinchamps holds an Engineering Degree from ICAM Lille France (Institut Catholique des Arts et Métiers). He furthermore completed a Management Course in Aerospace in ENSAE Toulouse France (Ecole Nationale Supérieure de l'Aéronautique et de l'Espace) and in TUM Germany (Technische Universitat München). He is a certified 6 Sigma Black Belt and also took an Executive Course at INSEAD Fontainebleau France.

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

Dr. Qiyi Luo (羅七一), CTO of the Company, a member of CEC and ICC. Please refer to the above for the details of his biography.

Dr. Philippe Wanstok, is Senior Vice President of Sales & Marketing & Customer Service & Market Access of MircroPort CRM and a member of ICC. Following the Company's asset purchase of LivaNova PLC's CRM Business in May 2018, he serves as Senior Vice President of Global Sales of MircroPort CRM since August 2018. He has over 30 years of experience in medical device industry. Most recently, he was acting as Chief Commercial Officer for CVRx. Before that, he served as the International General Manager of Cardiac Rhythm Disease Management – Commercial Operations at Medtronic, leading an international team of near 3,000 colleagues generating more than $2.4 billion of revenues in active markets of implantable devices. Dr. Wanstok participated in the establishment and development of cardiac rhythm business of Medtronic. He also worked at Guidant, where he served in a variety of management roles during which he established successful country and regional operation personnel, sales organization and distribution channels in France and Spain. After Guidant's merger with Boston Scientific, Dr. Wanstok served as Vice President of International Marketing for Boston Scientific, where he established and launched global marketing strategies. Dr. Wanstok holds a master's degree in Economics from the University of Paris-Assas and a Ph.D in Finance and International Marketing from the University of Pantheon-Sorbonne.

Mr. Paul Vodden, is Vice President of Finance of MicroPort CRM and a member of ICC, roles he has had since the Company's asset purchase of LivaNova PLC's CRM Business in May 2018. From 2011 to 2018, Mr. Vodden was with the Sorin Group, latterly LivaNova, where as Vice President of Finance he held financial responsibility for its business in the European and Japanese markets as well as globally for CRM. From 2003 to 2011, he held European finance management roles within Boston Scientific. Prior to 2003, he worked in Hewlett Packard, in both the UK and France, with several roles including worldwide controller of the commercial desktop business. Mr. Vodden has worked in PricewaterhouseCoopers in the UK, where he qualified as a Chartered Accountant with ICAEW. Mr. Vodden graduated in Business Economics and Accounting from the University of Southampton.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of MicroPort Scientific Corporation (the "Company" and together with its subsidiaries, the "Group") presents this report to the shareholders of the Company (the "Shareholders") together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

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

FINANCIAL STATEMENTS

The financial performance of the Group for the financial year ended 31 December 2020 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 75 to 188 of this annual report.

BUSINESS REVIEW

OVERVIEW

In 2020, the entire world faced unprecedented challenges brought on by the COVID-19 pandemic. With the global efforts to combat the pandemic, the impact of the pandemic is generally manageable, but the situation in many other regions is still uncertain. In the short term, outpatient visits and elective surgeries for purposes other than COVID-19 treatment were postponed, which made a deep impact on some industries; but in the long run, the ageing population and the pursuit of higher quality of life have led to increasing medical demand and steady growth of the medical industry in general. For the year ended 31 December 2020, the Company recorded a revenue of US$648.7 million, representing a decline of 18.2% as compared to 2019. Meanwhile, the Company recorded a loss of US$223.3 million (loss attributable to equity shareholders: US$191.3 million). The Group aims to continuously bring its innovations, technologies and services to millions of global patients and become a patient oriented global enterprise capable of leading minimally invasive and other emerging medical technologies.

A review of the business of the Group during the year ended 31 December 2020, which includes an analysis of the Group's performance using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" on page 10 to 25 of this report. The financial risk management objectives and policies of the Group are set out in note 30 to the consolidated financial statements. An analysis of the Group's performance indicators are set out in the section headed "Financial Highlights" on page 4 of this report. The compliance with relevant laws and regulations which have significant impact on the Group is set out in this Directors' report. The reviews form part of this statement.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Realizing the responsibility of protecting the environment, the Company is committed to achieve its success in business without the expense of environment, and is dedicated to maintain an environmentally friendly and sustainable operation.

The Company integrates environmental considerations into its operational strategy, ensuring that required resources are allocated to support effective implementation of the environmental management system. The functional departments of the Company regularly review the relevant laws and regulations, making sure the environmental management systems are up-to-date and in compliance with the latest standards and requirements.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with legal and regulatory requirements, as well as the risk of non-compliance. The Company has allocated system and staff resources to ensure ongoing compliance with applicable laws, rules and regulations including but not limited to, those laws, rules and regulations promulgated by the NMPA, MOFCOM, State Administration for Market Regulation, the government of the Hong Kong Special Administrative Region, and such regulators' global counterparts in countries where MicroPort conducts business. We maintain cordial working relationships with regulators through effective communications. Throughout the year ended 31 December 2020, we have strived to conduct business in accordance with all applicable laws, rules and regulations in all material respects and there is no investigation, disciplinary proceeding or inquiry by, or order, decree, decision or judgment of any authority outstanding, or, to the best of the Company's knowledge, threatened or expected to be issued against any member of the Company or its respective assets or any person for whose acts or defaults it may be vicariously liable, and which is of a material nature.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

The Group's principal business activities are exposed to a variety of financial risks including but not limited to credit risk, interest rate risk, liquidity risk, currency risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 30 "Financial Risk Management and Fair Values" to the financial statements of this annual report.

MARKET RISKS

The Group is also exposed to market risks brought on by the government. The implementation of bidding policy and other national policies and legislations may bring stress for the retails prices of our products. Ongoing decreases in the retails prices of our products or limitations on the profit margins we earn could materially and adversely affect our business, financial condition and results of operation. In addition, as our sales depend to a large extent on the level of insurance reimbursement patients receive for treatments using our products, and China has a complex medical insurance system that is currently undergoing reform, the governmental insurance coverage or reimbursement level in China for treatments using new medical devices such as vascular devices is subject to significant uncertainty and varies from region to region, the Group is therefore exposed to the uncertainty of market share reduction due to the reasons above.

LEGAL RISKS

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

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

EMPLOYEES

The Company builds its success on employees' dedication and commitment. MicroPort is committed to providing as much opportunities as possible for employees' skills enhancement and career development. The Company aims at cultivating talents in a long run, encouraging employees to realise their full potential and to keep pace with growth of the Company.

As at 31 December 2020, the Group had 7,068 employees (31 December 2019: 6,475 employees).

CUSTOMERS

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

We have established relationships with many key opinion leaders in medical community, including physicians, researchers and hospital administrators. Through regular visits with specialists, attendance of conferences, holding physician education programs and other activities, our brand recognition are enhanced greatly.

SHAREHOLDERS

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

FUTURE BUSINESS DEVELOPMENTS

In 2021, facing the increasingly fierce competition and price pressure of global medical devices industry, we will continuously perform proactive strategies to maintain sustained development and enhance competitiveness through integrating resources, optimizing management structure, deepening globalization, intensifying innovation, expanding market, and building total solution capability, establishing intelligent information technology systems, and so on.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2020, purchases from the Group's largest supplier and the five largest suppliers in aggregate accounted for 7.1% and 18.0% respectively of the Group's cost of sales for the year. Sales to the Group's largest customer and the five largest customers in aggregate accounted for 5.7% and 18.5% respectively of the Group's total revenue for the year.

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

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 28 to the consolidated financial statements.

DISTRIBUTABILITY OF RESERVES

At 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was US$$611,631,000 (2019: US$295,719,000).

GROUP FINANCIAL SUMMARY

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

DIRECTORS

Directors during the year ended 31 December 2020 and up to the date of this report were:

EXECUTIVE DIRECTOR

Dr. Zhaohua Chang *(Chairman)*

NON-EXECUTIVE DIRECTORS

Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji *(retired on 18 June 2020)*
Dr. Yasuhisa Kurogi *(elected on 18 June 2020)*
Mr. Hongliang Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Chunyang Shao

In accordance with the Company's Articles of Association, Dr. Zhaohua Chang, Mr. Hongliang Yu, Mr. Chunyang Shao and Dr. Yasuhisa Kurogi shall retire from office as Directors at the forthcoming annual general meeting. All of them will offer themselves for re-election.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 26 to 30 of this annual report.

DIRECTORS' SERVICE CONTRACT

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service contract which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

COMPETING BUSINESS INTERESTS OF DIRECTORS

During the year ended 31 December 2020, none of the Directors were interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries pursuant to Rule 8.10 of the Listing Rules.

EMOLUMENT POLICY

The remuneration committee is responsible for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with highest emoluments are set out in notes 7 and 8 to the consolidated financial statements.

PENSION SCHEME

According to relevant laws and regulations, as well as local policies, the Group's subsidiaries worldwide participate in retirement savings plans. Under these plans, the Group is required to pay the defined contribution to the plans by certain rules and up to certain maximums. The only obligation of the Group with respect to the retirement savings plans is to make required contributions under the plans. Contributions made under the retirement savings plans are charged in the statement of profit or loss as incurred.

The Company may not utilize any forfeited contributions in order to make fewer contributions than the current amounts.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, interests and short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Name of Director/ Chief Executive	No. of Shares	Notes	Capacity	Nature of interest	Approximate percentage of interest in the Company
Zhaohua Chang	72,480,205	1	Beneficial owner	Long position	4.01%
Jonathan H. Chou	1,000,000	2	Beneficial owner	Long position	0.06%

Notes:

(1) Dr. Zhaohua Chang is interested in (i) 55,603,417 underlying Shares of the Company by virtue of the options granted to him under the share option scheme of the Company. For further details, please refer to the below section headed "Share Option Schemes"; (ii) 16,876,788 shares by virtue of the shares awarded to him under the Share Award Scheme of the Company, the vesting of which are subject to the satisfaction of certain conditions.

(2) Mr. Jonathan H. Chou is interested in the underlying Shares of the Company by virtue of the options granted to him under the share option scheme of the Company. For further details, please refer to the below section headed "Share Option Schemes".

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE ASSOCIATED CORPORATIONS

Name of Director/ Chief Executive	Name of associated corporation	No. of shares	Notes	Capacity	Nature of interest	Approximate percentage of interest in the associated corporation
Zhaohua Chang	MicroPort CardioFlow Medtech Corporation	300,000	1	Beneficial owner	Long position	0.30%
	Suzhou MicroPort Orthopedic Scientific (Group) Company Limited	5,305,218	2	Interest in controlled corporation	Long position	1.41%
	MicroPort Neuro Tech (Shanghai) Co., Ltd.	7,690,625	2	Interest in controlled corporation	Long position	12.11%

Notes:

(1) Dr. Zhaohua Chang is interested in the underlying shares of the associated corporation by virtue of the options granted to him under the share option scheme of that associated corporation.

(2) Such interests are held by Shanghai Hopeway Biotechnology Co., Ltd., a company wholly owned by Dr. Zhaohua Chang.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would need to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

INTERESTS AND SHORT POSITION IN THE SHARES

Name of Substantial Shareholder	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of S hares in issue (%)
Otsuka Holdings Co., Ltd.	382,994,120	1	Interest of controlled corporation	Long position	21.17
Otsuka Medical Devices Co., Ltd.	382,994,120	1	Beneficial owner	Long position	21.17
Maxwell Maxcare Science Foundation Limited	265,107,188	2	Interest of controlled corporation/ Beneficial owner	Long position	14.65
We'Tron Capital Limited	264,085,864	2	Beneficial owner	Long position	14.59
Shanghai We'Tron Capital Corp.	264,085,864	2	Interest of controlled corporation	Long position	14.59
Shanghai Zhangjiang (Group) Co., Ltd.	221,748,050	3	Interest of controlled corporation	Long position	12.25
Shanghai Zhangjiang Science and Technology Investment Co.	221,748,050	3	Interest of controlled corporation	Long position	12.25
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	221,748,050	3	Interest of controlled corporation	Long position	12.25
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	221,748,050	3	Interest of controlled corporation	Long position	12.25
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited	221,748,050	3	Interest of controlled corporation	Long position	12.25
Shanghai ZJ Hi-Tech Investment Corporation	221,748,050	3	Interest of controlled corporation/ Beneficial Owner	Long position	12.25
Shanghai ZJ Holdings Limited	221,748,050	3	Interest of controlled corporation	Long position	12.25
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	3	Beneficial Owner	Long position	11.86
Hillhouse Capital Advisors, Ltd.	153,694,000		Investment manager	Long position	8.49
Gaoling Fund, L.P.	147,009,000		Beneficial Owner	Long position	8.12
China Renaissance Holdings Limited	96,179,847	4	Interest of controlled corporation	Long position	5.32
CR Investments Corporation	96,179,847	4	Interest of controlled corporation	Long position	5.32
Grand Eternity Limited	96,179,847	4	Interest of controlled corporation	Long position	5.32
Helix Capital Partners	96,179,847	4	Interest of controlled corporation	Long position	5.32
East Image Limited	96,179,847	4	Interest of controlled corporation	Long position	5.32
East Mega Limited	96,179,847	4	Interest of controlled corporation	Long position	5.32
Zhang Junjie	96,179,847	4	Interest of controlled corporation	Long position	5.32
Starwick Investments Limited	96,179,847	4	Beneficial Owner	Long position	5.32

Notes:

(1) Otsuka Holdings Co. Ltd. holds the entire issued share capital of Otsuka Medical Devices Co., Ltd. and therefore, is deemed to be interested in the same number of Shares held by Otsuka Medical Devices Co., Ltd..

(2) Maxwell Maxcare Science Foundation Limited holds 100% interest of Shanghai We'Tron Capital Corp. which in turn is interested in 94.19% of We'Tron Capital Limited. Therefore, Maxwell Maxcare Science Foundation Limited, Shanghai We'Tron Capital Corp. and We'Tron Capital Limited are interested in the same 264,085,864 Shares held by We'Tron Capital Limited.

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

Name of Controlled Corporation	No. of Shares	Approximate percentage of total number of Shares in issue (%)
Shanghai Zhangjiang Health Solution Holdings Limited	214,705,470	11.86
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0. 39
Total	221,748,050	12.25

(4) China Renaissance Holdings Limited holds 100% interests of CR Investments Corporation, which in turn is interested in 100% of Grand Eternity Limited. Grand Eternity Limited, Zhang Junjie and GU Zheyi respectively hold 51%, 29.4% and 19.6% interests of Helix Capital Partners. Zhang Junjie also holds 100% interests of East Mega Limited. Each of Helix Capital Partners and East Mega Limited holds 50% voting management shares of Starwick Investments Limited respectively. East Image Limited is interested in 92.96% non-voting participating shares issued by Starwick Investments Limited. Starwick Investments Limited holds 96,179,847 Shares in long position.

Save as disclosed above, as at 31 December 2020, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would need to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

MANAGEMENT CONTRACT

During the year ended 31 December 2020, no contract concerning the management and administration of all or any substantial part of the business of the Company was entered into or existed.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save for the investments in Suzhou MicroPort Orthopedic Scientific (Group) Company Limited and MicroPort NeuroTech (Shanghai) Co., Ltd. by Shanghai Hopeway Biotechnology Co., Ltd. ("Hopeway Biotech"), a company wholly owned by Dr. Chang, announced on 13 May 2020 and 24 July 2020, respectively, there were no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any its subsidiaries was a party and in which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the financial year 2020 or at any time during the year ended 31 December 2020.

Save as disclosed in note 32 to the consolidated financial statements, no contract of significance was entered into between any member of the Group and a controlling shareholder of the Company or any of its subsidiaries corporations or contract of significance for the provision of services to any member of the Group by a controlling shareholder or any of its subsidiaries subsisted as at the end of the financial year 2020 or during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

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

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

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Apart from the details as disclosed under the heading "Interests and short positions of the Directors and Chief Executive in Shares, underlying Shares and debentures of the Company and its associated corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

(I) DISTRIBUTION AGREEMENTS

On 24 April, 2020, certain members of the Group and subsidiaries of Otsuka Holdings Co., Ltd. ("Otsuka Holdings) entered into the agreements for the distribution of the products of those members in Japan, Thailand, Indonesia, the Philippines and Pakistan, with the terms up to 31 December 2021. The annual cap for the year ended 31 December 2020 for the agreements was US$ 9 million, and the annual cap for the year ending 31 December 2021 (in respect of Thailand only) is US$ 3 million. Please refer to the announcements dated 24 April 2020 and 2 June 2020 for more details. For the year ended 31 December 2020, the transaction amount under the agreements was US$4.4 million.

On 15 December 2020, the Company and Otsuka Holdings entered into a distribution framework agreement ("Distribution Framework Agreement"), details of which were disclosed in the announcement of the Company dated 15 December 2020. According to the Distribution Framework Agreement, the Company appointed Otsuka Holdings' subsidiaries and associates as distributors for the products of the Group in certain countries or regions where the business of Otsuka Holdings and its subsidiaries and associates cover. The Distribution Framework Agreement has a term commencing from 1 January 2021 and ending on 31 December 2023 (both days inclusive).

The transactions under the Distribution Framework Agreement were conducted via specific distribution agreements between respective members of the Group and Otsuka Holdings' subsidiaries and associates, and were made at prices with reference to the prevailing market prices (including but not limited to the comparable tender prices approved by local governments or hospitals) of similar products within the respective markets.

As Otsuka Holdings is the substantial shareholder of the Company, it is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions conducted under the Distribution Framework Agreement constituted continuing connected transactions under Chapter 14A of the Listing Rules. The annual caps for the transactions under the Distribution Framework Agreement in 2021, 2022 and 2023 were US$8.9 million, US$9 million and US$9.8 million, respectively. The term of the Distribution Framework Agreement has not commenced during the year ended 31 December 2020.

(II) CONTRIBUTION OF CAPITAL TO SUBSIDIARIES AND FINANCIAL ASSISTANCE

On 13 May 2020, certain members of the Group entered into agreements with, among others, Shanghai Hopeway Biotechnology Co., Ltd. ("Hopeway Biotech"), where Hopeway Biotech and certain investors agreed to contribute new capital to Suzhou MicroPort Orthopedic Scientific (Group) Company Limited. Of which, Hopeway Biotech and Shanghai Zonggu Enterprise Management Consulting Centre (Limited Partnership) contributed RMB55,207,420 and RMB38,850,000, respectively (the "First Capital Increase Agreement"). Please refer to the announcement dated 13 May 2020 for more details. As at 31 December 2020, the First Capital Increase Agreement had been completed.

On the same day, the Group entered into a loan agreement with Hopeway Biotech, under which, a subsidiary of the Group extended a 5-year secured term loan with a principal amount of RMB55,207,420 to Hopeway Biotech at an annual interest rate of 5% payable at maturity (the "First Loan"). The proceeds from the First Loan should be used by Hopeway Biotech for the capital increase under the First Capital Increase Agreement. Please refer to the announcement dated 13 May 2020 for more details.

On 24 July 2020, certain members of the Group entered into agreements with, among others, Hopeway Biotech, where Hopeway Biotech and Shanghai Lianghong Enterprise Consulting Centre Limited Partnership ("Lianghong") agreed to contribute new capital to MicroPort NeuroTech (Shanghai) Company Limited ("NeuroTech"). Of which, Hopeway Biotech and Lianghong contributed RMB115,000,000 and RMB35,000,000, respectively (the "Second Capital Increase Agreement"). Please refer to the announcements dated 24 July 2020 and 10 August 2020 for more details. As at 31 December 2020, the Second Capital Increase Agreement had been completed.

On the same day, the Group entered into a loan agreement with Hopeway Biotech, under which, a subsidiary of the Group extended a 18-months secured term loan with a principal amount of RMB115,000,000 to Hopeway Biotech at an annual interest rate of 5% payable at maturity (the "Second Loan"). The proceeds from the Second Loan should be used by Hopeway Biotech for the capital increase under the Second Capital Increase Agreement. Please refer to the announcements dated 24 July 2020 and 10 August 2020 for more details.

Hopeway Biotech is wholly owned by Dr. Zhauhua Chang, an executive Director, and is a connected person of the Company for the purpose of Chapter 14 A of the Listing Rules. The capital contributions made by Hopeway Biotech under the First Capital Increase Agreement and the Second Capital Increase Agreement constituted connected transactions, and the loans extended to Hopeway Biotech constituted financial assistance to a connected person by the Company.

(III) FRAMEWORK AGREEMENT WITH NEUROTECH

Upon completion of the capital increase made by Hopeway Biotech under the Second Capital Increase Agreement, NeuroTech became a connected subsidiary of the Company. To regulate the transactions between members of the Group and the members of NeuroTech group going forward, on 24 July 2020, the Company entered into procurement framework agreement with NeuroTech for a term commencing from the completion date of the Second Capital Increase Agreement and ending on 31 December 2022. Under the procurement framework agreement, members of the Group would supply raw materials (including but not limited to medical device and equipment) to, and would provide procurement services for, the members of NeuroTech group. The annual caps for the transactions under the procurement framework agreement for the three years ended and ending 31 December 2020, 2021 and 2022 were RMB15.2 million, RMB22.25 million and RMB 27.5 million respectively. Please refer to the announcements dated 24 July 2020 and 10 August 2020 for more details. From completion of the Second Capital Increase Agreement to 31 December 2020, the actual transactions between the Group and NeuroTech group under the procurement framework agreement was RMB4.5 million.

(IV) CONTRIBUTION OF CAPITAL TO A SUBSIDIARY BY A CONNECTED PERSON AT SUBSIDIARY LEVEL

On 3 July 2020, certain members of the Group entered into an agreement with investors to increase the share capital of MicroPort Cardiac Rhythm Management Limited ("MicroPort CRM") by way of subscription of Series B preferred shares of MicroPort CRM. Under the agreement, a subsidiary of the Group, an investor and Sino Rhythm Limited agreed to subscribe for Series B preferred shares of MicroPort CRM at the consideration of US$30 million, US$50 million and US$25 million respectively.

Sino Rhythm Limited is a substantial shareholder of MicroPort CRM and is a connected person at the subsidiary level of the Company for the purpose of Chapter 14A of the Listing Rules. The subscription by Sino Rhythm Limited constituted a connected transaction, please refer to the announcement date 3 July 2020 for details. As at 31 December 2020, the transaction had been completed.

The independent non-executive Directors have reviewed the continuing connected transactions of the Company and confirmed that the transactions have been entered into:

- In the ordinary and usual course of business of the Group;
- On normal commercial terms; and
- According to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has issued unqualified letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Rule 14A.56 of the Listing Rules.

The Company's auditor has confirmed that regarding the continuing connected transactions of the Group, nothing has come to their attention that causes them to believe that:

– the disclosed continuing connected transactions have not been approved by the Board;

– for transactions involving the provision of goods or services by the Group, such transactions were not, in all material respects, in accordance with the pricing policies of the Group;

– the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

– the transaction amounts of the disclosed continuing connected transactions as mentioned above have exceeded the annual cap set by the Company.

Save as the aforsaid, there were no discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules during the year ended 31 December 2020.

Save as aforesaid, none of the "Material Related Party Transactions" as disclosed in Note 32 to the consolidated financial statements for the year ended 31 December 2020 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

To the extent of the above "Material Related Party Transactions" constituted connected transactions or continuing connected transactions as defined in the Listing Rules, the company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2020.

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

Save for the 858,000 Shares of the Company purchased by the trustee of the share award scheme at cash consideration of US$3,496,000 on the Stock Exchange for the share award scheme, 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 2020.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Reference is made to the announcement of the Company dated 3 July 2020. On 3 July 2020, certain members of the Group entered into a share purchase agreement with certain investors under which the Group and certain investors agreed to subscribe for Series B Preferred Shares of MicroPort Cardiac Rhythm Management Limited (the "CRM Cayman") at an aggregated amount of US$105 million. Upon completion of the subscription, the shareholding of the Group in CRM Cayman was reduced to 52.70%.

Reference is made to the announcements of the Company dated 31 August and 14 September 2020. On 31 August 2020, the Group entered into an agreement with certain investors, pursuant to which, i) the Group agreed to transfer 7.14% of the registered capital in MicroPort MedBot (Shanghai) Co., Ltd. (the "MP MedBot") to certain investors at the consideration of RMB1,500 million; ii) the investors agreed to contribute additional capital in the aggregate amount of RMB1,500 million to MP MedBot. Upon completion of these transactions, the shareholding of the Group in MP MedBot was reduced to 53.77%. As at 31 December 2020, the shareholding of the Group in MP MedBot was 53.75%.

Save as disclosed above and in Note 30 to the financial statements in this announcement, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company during the Reporting Period.

PLACING

On 22 June 2020, the Company entered into a placing agreement with J.P. Morgan Securities Plc (as placing agent) pursuant to which the Company placed 65,958,000 new Shares (the "Placing Shares") to more than six independent investors at the placing price of HK$23.50 per Share (the "Placing"). The Placing Shares represent approximately 3.80% of the issued share capital of the Company as at the date of the placing agreement and approximately 3.66% of the issued share capital of the Company as enlarged by the Placing. The Placing Shares have a nominal value of US$659.58 and a market value of approximately HK$1,606 million based on the closing price of the Shares of HK$24.35 on 22 June 2020. The net issue price of the Placing Shares is HK$23.36 per Share. The net proceeds from the Placing in the amount of approximately HK$1,541 million were intended to be applied for the repayment of bank loans, funding potential business development and investments in the future, and as general working capital of the Group. As at 31 December 2020, approximately HK$1,223 million from the proceeds have been utilized as intended and approximately HK$318 million was still unused.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

SHARE AWARD SCHEME

The Board approved and adopted a share award scheme on 26 August 2011 ("Share Award Scheme") as a means of recognising the contributions of selected employees of the Group. On 27 August 2020, the Board resolved to amend certain terms of the Share Award Scheme rules, and the term of the Share Award Scheme has been extended to a period of ten years from the date of the resolution of the Board. Please refer to the announcement dated 28 August 2020 for more details.

SHARE OPTION SCHEMES

PRE-IPO SHARE OPTION SCHEME

In order to attract and retain eligible persons, and to provide an additional incentive for them to promote the success of the Group, the Company had adopted a share option scheme in 2004 (the "2004 Option Plan") and 2006 (the "2006 Incentive Plan") (collectively the "Pre-IPO Share Option Scheme"). The 2004 Option Plan, authorised to grant up to 10,261,030 share options, was modified when the Company agreed to assume the obligation of all outstanding and unvested share options of MicroPort Medical (Cayman) Corporation, while the 2006 Incentive Plan was modified prior to IPO by increasing the maximum aggregate number of shares which may be issued to 6,509,157.

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme are 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at 31 December 2020, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represented 9.27% of the issued share capital of the Company. However, no additional options have been issued under the Pre-IPO Share Option Scheme since the listing of the Company on the Stock Exchange, and the total outstanding options that has been issued under the Pre-IPO Share Option Scheme is Nil.

The administrator of the Pre-IPO Share Option Scheme may at its discretion select the employees, Directors and consultants to whom options may be granted from time to time. The exercise period for the options granted under the Pre-IPO Share Option Scheme shall be no more than ten (10) years from the date of grant, and five (5) years if the grantee who owns Shares representing more than ten percent (10%) of the voting power of all classes of Shares in the Company. The exercise price under the Pre-IPO Share Option Scheme shall be based on one hundred percent (100%) of the fair market value per Share on the date of grant, and one hundred and ten percent (110%) if the grantee owns Shares representing more than ten percent (10%) of the voting power of all classes of Shares in the Company. The administrator shall determine the provisions, terms and conditions of each grant including, but not limited to, the vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, shares, or other consideration) upon settlement of the options, payment contingencies, and satisfaction of any performance criteria.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

A share option scheme (the "2010 Share Option Scheme") was approved and adopted pursuant to a written resolution of all the shareholders on 3 September 2010.

The purpose of the 2010 Share Option Scheme is to provide the Company with a means of incentivizing Directors, employees of business associates and retaining employees, and to encourage employees to work towards enhancing the value of our Company and promote the long-term growth of the Company. The 2010 Share Option Scheme will link the value of the Company with the interests of participants, enabling participants and the Company to develop together and promoting the Company's corporate culture.

The Directors of the Company may, at their discretion, invite any Directors (including Executive Directors, Non-executive Directors and Independent Non-executive Directors), employees and officers of any members of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any members of our Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the 2010 Share Option Scheme.

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the 2010 Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue as at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the 2010 Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-months period shall not exceed 1% of the then issued share capital of the Company.

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of option is US$1.00.

The 2010 Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. At the time of the grant of the options, the Company will specify such minimum period. Such period must expire no later than 10 years from the relevant date of grant (being the date on which the Board resolves to make an offer of options to the relevant grantee).

The Board will determine the price per Share upon the exercise of an option according to the terms of the 2010 Share Option Scheme, provided that it shall not be lower than the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of the offer of a grant; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of the offer of a grant; and (iii) the nominal value of a Share on the date of grant.

On 31 March 2020, the Company granted in aggregate 1,763,222 options under the 2010 Share Option Scheme to 33 eligible participants at the exercise price of HK$17.54 per Share. As at 31 December 2020, the total outstanding options that has been granted under the 2010 Share Option Scheme is 115,268,421, and the Shares may be issued upon the exercise of the options represented 6.37% of the Shares in issue.

As the 2010 Share Option Scheme was nearing the expiry of its term, the shareholders of the Company has resolved at the annual general meeting held on 18 June 2020 to adopt a new share option scheme (the "New Share Option Scheme") with largely similar terms as that of the 2010 Share Option Scheme. Upon the adoption of the New Share Option Scheme on 18 June 2020, the 2010 Share Option Scheme was cancelled. Options that have been granted under the 2010 Share Option Scheme prior to its cancellation shall remain valid in accordance with its terms.

The purpose of the New Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group. The Directors consider that the New Share Option Scheme will serve to motivate the eligible participants to contribute to the Group's development. The New Share Option Scheme, which will be in the form of options to subscribe for Shares, will enable the Group to recruit, incentivize and retain high-calibre staff, which the Directors consider that it is in line with modern commercial practice that eligible participants, which will include any directors (including executive directors, non-executive directors and independent non-executive directors), employees and officers of any members of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group who have contributed or will contribute to the Group, be given incentives and align their interests and objectives with that of the Group.

The New Share Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the rules of the New Share Option Scheme provide that the Board may determine, at its sole discretion, such terms and conditions on the grant of an option. Based on 1,736,355,940 Shares in issue as at the date of the annual general meeting, the maximum number of Shares that may be issued upon the exercise of the options that may be granted under the Share Option Scheme is 173,635,594 Shares, being 10% of the issued share capital of the Company as at the date of the adoption of the Share Option Scheme.

The maximum number of Shares in respect of which options may be granted under the New Share Option Scheme to any eligible participant shall not exceed 1% of the Shares in issue within any 12-month period.

Any option offer will be deemed to have been granted and accepted by the grantee when the duplicate offer document constituting acceptance of the option duly signed by the grantee, and a remittance in favour of the Company of US$1.00 as consideration for the grant thereof is received by the Company within the prescribed period under the scheme.

The exercise price of the options is determined by the Board at its absolute discretion and will be not less than the highest price of the official closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer a grant, the average official closing prices of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

The aggregate number of Shares which may be issued upon the exercise of all share options that may be granted under the New Share Option Scheme and all outstanding share options granted and yet to be exercised under the other share option schemes of the Company has not exceeded 30% of the Shares in issue.

On 28 August 2020 and 28 December 2020, the Company granted 750,000 options at the exercise price of HK$34.70 per Share and 1,150,000 options at the exercise price of HK$42.20 per Share respectively under the New Share Option Scheme. As at 31 December 2020, the total outstanding options that has been granted under the 2020 Share Option Scheme is 1,900,000, and the Shares may be issued upon the exercise of the options represented 0.1% of the Shares in issue.

SUBSIDIARY'S SHARE OPTION SCHEME

MICROPORT CARDIOFLOW MEDTECH CORPORATION

MicroPort CardioFlow Medtech Corporation (the "Subsidiary") is a company established in the Cayman Islands and is indirectly owned as to 50.06% by the Company as at 31 December 2020.

On 13 March 2020, the shareholders of the Company have resolved at the extraordinary ordinary meeting of the Company to approve the adoption of a share option scheme (the "Subsidiary Scheme") for the Subsidiary. The purpose of the Subsidiary Scheme is to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Subsidiary and its subsidiaries (the "Subsidiary Group") and for such other purposes as the Board may approve from time to time.

Under the Subsidiary Scheme, the directors of the Subsidiary may, at their discretion, grant options to any full-time or part time employee, any director including executive director, non-executive director and independent non-executive director of the Subsidiary Group; and any director (including executive, non-executive and independent non-executive directors) or employee (whether full time or part-time) of the Company whom the board of the Subsidiary, at its absolute discretion, considered had or will have contribution to the development of the Subsidiary Group.

The Subsidiary Scheme does not stipulate either a minimum period for which an option must be held or any performance targets a grantee is required to achieve before an option may be exercised. However, under the Subsidiary Scheme, the board of the Subsidiary may at its discretion specify any conditions which must be satisfied before the option may be exercised.

The aggregate number of shares in the Subsidiary (the "Subsidiary Shares") which may be issued upon exercise of all options to be granted under the Subsidiary Scheme and any new subsidiary scheme of the Subsidiary which may be adopted thereafter must not, in aggregate, exceed 5% of the total number of Subsidiary Shares in issue as at the date of adoption of the Subsidiary Scheme or any new subsidiary share option scheme (as the case may be). The maximum aggregate number of Subsidiary Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Subsidiary Scheme and any other share option schemes of the Subsidiary, must not, in aggregate, exceed 30% of the total number of Subsidiary Shares in issue from time to time. As at the date of the adoption of the Subsidiary Scheme, the Subsidiary had 98,750,000 Subsidiary Shares in issue, the total number of Subsidiary Shares which may be issued upon the exercise of all options to be granted under the Subsidiary Scheme would be 4,937,500 Subsidiary Shares.

The maximum number of shares in respect of which options may be granted to each grantee in any 12-month period cannot exceed 1% of the total number of the issued share of the Subsidiary. The exercise price of the option shall be a price determined by the board of the Subsidiary at its sole and absolute discretion. If the Subsidiary is separately listed on the Stock Exchange, the exercise price of the options shall be subject to the requirements of the Listing Rules.

The Subsidiary Scheme shall be valid and effect for a period of 10 years from the date of its adoption. On 31 March 2020, an aggregate of 4,135,750 options have been granted by the Subsidiary under the Subsidiary Scheme to 178 grantees at the exercise price of US$3.2 per Subsidiary Share. As of 31 December 2020, the aggregate number of outstanding share options granted under the Subsidiary Scheme is 3,595,447.

The Share Option Scheme will remain in force for a period of 10 years after the Adoption Date.

During the year, 3,663,222 share options were granted and the status of the share options granted up to 31 December 2020 is as follows:

Category of participants	As at 30 Jun 2020	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 31 Dec 2020	Date of Grant of share options	Vesting Period	Exercise Period	Exercise Price	Share Price of the Company as at the date of grant of share options	Share Price of the Company Immediately before the exercise date of Share Options (Note)
Directors												HKD29.39
Zhaohua Chang	12,875,000	–	1,300,000	–	–	11,575,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2021	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	14,100,000	–	–	–	–	14,100,000	30 Mar 2016	30 Mar 2016 – 30 Mar 2021	30 Mar 2017 – 29 Mar 2026	HKD3.482	HKD3.360	
	13,500,000	–	–	–	–	13,500,000	23 Jan 2017	23 Jan 2017 – 23 Jan 2022	23 Jan 2022 – 22 Jan 2027	HKD5.628	HKD5.450	
	313,636	–	–	–	–	313,636	30 Mar 2017	30 Mar 2017 – 30 Mar 2022	30 Mar 2022 – 29 Mar 2027	HKD5.798	HKD5.700	
	214,535	–	–	–	–	214,535	29 Mar 2018	29 Mar 2023	29 Mar 2023 – 28 Mar 2028	HKD8.510	HKD8.510	
	15,594,188	–	–	–	–	15,594,188	24 Dec 2018	24 Dec 2018 – 30 Dec 2022	24 Dec 2020 – 23 Dec 2028	HKD7.692	HKD7.150	
	225,752	–	–	–	–	225,752	1 Apr 2019	1 Apr 2024	1 Apr 2024 – 31 Mar 2029	HKD7.448	HKD7.270	
	80,306	–	–	–	–	80,306	31 Mar 2020	31 Mar 2025	31 Mar 2025 – 30 Mar 2030	HKD17.54	HKD17.54	
Jonathan H. Chou	1,000,000	–	–	–	–	1,000,000	2 3 Jan 2019	2 3 Jan 2019 – 23 Jan 2023	2 3 Feb 2019 – 22 Jan 2029	HKD7.730	HKD7.730	
In Aggregate	57,903,417	–	1,300,000	–	–	56,603,417						
Business associates												HKD36.51
	300,000	–	149,500	–	–	150,500	1 Sep 2016	1 Sep 2016 – 1 Sep 2021	1 Sep 2017 – 31 Aug 2026	HKD4.950	HKD4.950	
	500,000	–	–	–	–	500,000	8 Oct 2018	8 Oct 2018 – 8 Oct 2023	8 Oct 2019 – 7 Oct 2028	HKD9.992	HKD9.540	
In Aggregate	800,000	–	149,500	–	–	650,500						

Notes: The share price of the Company disclosed is the weighted average closing price of the shares immediately before the exercise dates of share options during the period.

Category of participants	As at 30 Jun 2020	Granted during the Period	Exercised during the Period	Expired during the Period	Cancelled during the Period	As at 31 Dec 2020	Date of Grant of Share Options	Vesting Period	Exercise Period	Exercise Price	Share Price of the Company as at the date of grant of share options	Share Price of the Company Immediately before the exercise date of share options (Note)
Employees												HKD32.83
	3,514,900	–	537,100	–	–	2,977,800	28 Aug 2012	28 Aug 2018 – 28 Aug 2019	28 Aug 2019 – 27 Aug 2022	HKD3.350	HKD3.350	
	500,000	–	–	–	–	500,000	7 Sep 2012	7 Sep 2012 – 7 Sep 2017	7 Sep 2013 – 6 Sep 2022	HKD3.330	HKD3.330	
	3,027,000	–	1,007,000	–	–	2,020,000	10 Dec 2012	10 Dec 2012 – 10 Dec 2019	10 Dec 2019 – 9 Dec 2022	HKD4.600	HKD4.600	
	250,000	–	–	–	–	250,000	28 Aug 2013	28 Aug 2013 – 28 Aug 2018	28 Aug 2014 – 27 Aug 2023	HKD4.970	HKD4.970	
	630,000	–	–	–	–	630,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2019	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	1,420,000	–	1,420,000	–	–	–	20 Jan 2015	20 Jan 2015 – 20 Jan 2020	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	1,040,000	–	–	–	–	1,040,000	20 Jan 2015	20 Jan 2015 – 20 Jan 2021	20 Jan 2016 – 19 Jan 2025	HKD3.210	HKD3.170	
	12,490,000	–	430,000	–	200,000	11,860,000	30 Mar 2016	30 Mar 2016 – 30 Mar 2021	30 Mar 2017 – 29 Mar 2026	HKD3.482	HKD3.360	
	200,000	–	–	–	200,000	–	23 Jan 2017	23 Jan 2017 – 23 Jan 2022	23 Jan 2018 – 22 Jan 2027	HKD5.628	HKD5.450	
	9,040,000	–	–	–	–	9,040,000	23 Jan 2017	23 Jan 2022	23 Jan 2022 – 22 Jan 2027	HKD5.628	HKD5.450	
	2,486,413	–	–	–	–	2,486,413	30 Mar 2017	30 Mar 2022	30 Mar 2022 – 29 Mar 2027	HKD5.798	HKD5.700	
	2,000,000	–	–	–	–	2,000,000	25 Aug 2017	25 Aug 2017 – 25 Aug 2022	25 Aug 2018 – 24 Aug 2027	HKD7.418	HKD7.020	
	2,236,939	–	–	–	–	2,236,939	29 Mar 2018	29 Mar 2023	29 Mar 2023 – 28 Mar 2028	HKD8.510	HKD8.510	
	14,622,596	–	196,710	–	4,796	14,421,090	24 Dec 2018	24 Dec 2018 – 30 Dec 2022	24 Dec 2020 – 23 Dec 2028	HKD7.692	HKD7.150	
	1,820,994	–	–	–	–	1,820,994	23 Jan 2019	23 Jan 2019 – 31 Jan 2023	23 Jan 2021 – 22 Jan 2029	HKD7.730	HKD7.730	
	250,000	–	–	–	–	250,000	23 Jan 2019	23 Jan 2019 – 23 Jan 2024	23 Jan 2020 – 22 Jan 2029	HKD7.730	HKD7.730	
	625,000	–	162,500	–	–	462,500	23 Jan 2019	23 Jan 2019 – 23 Jan 2020	23 Feb 2019 – 22 Jan 2029	HKD7.730	HKD7.730	
	3,835,852	–	–	–	–	3,835,852	1 Apr 2019	1 Apr 2024	1 Apr 2024 – 31 Mar 2029	HKD7.448	HKD7.270	
	500,000	–	–	–	–	500,000	30 Aug 2019	30 Aug 2019 – 30 Aug 2024	30 Aug 2020 – 29 Aug 2029	HKD6.95	HKD6.95	
	1,337,691	–	–	–	–	1,337,691	31 Mar 2020	31 Mar 2025	31 Mar 2025 – 30 Mar 2030	HKD17.54	HKD17.54	
	200,000	–	–	–	–	200,000	31 Mar 2020	31 Mar 2021 – 31 Mar 2025	31 Mar 2021 – 30 Mar 2030	HKD17.54	HKD17.54	
	145,225	–	–	–	–	145,225	31 Mar 2020	31 Mar 2022 – 31 Mar 2024	31 Mar 2022 – 30 Mar 2030	HKD17.54	HKD17.54	
	–	750,000	–	–	–	750,000	28 Aug 2020	28 Aug 2021 – 28 Aug 2025	28 Aug 2021 – 27 Aug 2030	HKD34.70	HKD34.70	
	–	1,150,000	–	–	–	1,150,000	28 Dec 2020	28 Dec 2021 – 28 Dec 2025	28 Dec 2021 – 27 Dec 2030	HKD42.20	HKD42.20	
In Aggregate	62,172,610	1,900,000	3,753,310	–	404,796	59,914,504						
Total	120,876,027	1,900,000	5,202,810	–	404,796	117,168,421						

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2020.

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 2020 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 existing shareholders.

DONATION

During the year ended 31 December 2020, the Group made donations of approximately US$1,953,000.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on 24 June 2021. 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 HK4.3 cents (tax inclusive) per Share for the year ended 31 December 2020 to the shareholders whose names appear on the register of members of the Company on Monday, 5 July 2021 and also to recommend the offer to the shareholders the right to select as an alternative, to receive such a 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 a 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 Wednesday, 18 August 2021. 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 Wednesday, 18 August 2021. 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 2020.

On 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, 19 July 2021.

TAX ALLOWANCES

The Company is not aware of any particular tax allowances granted to the Company's shareholders due to their interests in its securities.

REPORT OF THE DIRECTORS

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 21 June 2021 to Thursday, 24 June 2021, 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, 18 June 2021 (Hong Kong Time), being the last registration date.

The proposed final dividend for the year ended 31 December 2020 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, 30 June 2021 to Monday, 5 July 2021, 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 Tuesday, 29 June 2021 (Hong Kong Time), being the last registration date.

CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report of this annual report.

AUDITOR

KPMG has acted as auditor of the Company for the financial year ended 31 December 2020. KPMG has been the auditor of the Company for the past ten years.

KPMG shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution may be proposed at the forthcoming annual general meeting to re-appoint KPMG as auditor of the Company.

MISCELLANEOUS

The Company was not aware of any shareholders who had waived or agreed to waive any dividend arrangement for the year ended 31 December 2020.

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

Shanghai, the PRC
30 March 2021

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the financial year ended 31 December 2020.

The Company is committed to maintaining high standards of corporate governance and practices to protect the interests of the shareholders of the Company. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company adopts the principles set out in the Corporate Governance Code and embedding best governance practices throughout the organization.

CORPORATE GOVERNANCE PRACTICES

The 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 2020, the Company has complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code ("CG Code") as set out 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 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. Dr. Zhaohua Chang ("Dr. Chang") has assumed the responsibility of the executive Director and the chairman of the Board and is responsible for managing the Board and Group's business. As the Board considers that Dr. Chang has in-depth knowledge of the Group's business and can make appropriate decisions promptly and efficiently, he also 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 Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The Company has entered into a letter of appointment with all Non-executive Directors (including Independent Non-executive Directors) of the Company for a term of three years on 18 June 2020, except Mr. Chunyang Shao, an Independent Non-executive Directors of the Company, who was appointed under a specific term of three years commencing from 23 September 2019. The Company has also entered into a letter of appointment with Dr. Yasuhisa Kurogi, who was elected a Non-executive Director of the Company on 18 June 2020, under a term of three years. The Company, therefore, has complied with Code Provision A.4.1 during the period from 18 June 2020 to 31 December 2020.

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

CORPORATE GOVERNANCE REPORT

THE BOARD/BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

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

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to entering into any significant transactions by the above mentioned officers.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all time.

The Company has arranged for appropriate insurance cover for Directors' and senior management's liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

BOARD COMPOSITION

The Board structure is governed by the Company's Articles of Association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

As at 31 December 2020, the Board comprises seven members, consisting of one Executive Director, three Non-executive Directors and three Independent Non-executive Directors.

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

The Board of the Company comprises the following Directors as of 31 December 2020:

EXECUTIVE DIRECTOR:

Dr. Zhaohua Chang (Chairman and Chief Executive Officer)

NON-EXECUTIVE DIRECTORS:

Mr. Norihiro Ashida
Dr. Yasuhisa Kurogi
Mr. Hongliang Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Jonathan H. Chou
Dr. Guoen Liu
Mr. Chunyang Shao

Save as disclosed in this annual report, there is no other relationship (including, financial, business, family or other material/relevant relationships) between the board members.

Throughout the financial year ended 31 December 2020, the Board at alltime met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the Board at all times met the requirement of the Listing Rules in regard of independent non-executive directors to constitute one-third of an issuer's board.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas Code Provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

In accordance with the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years.

The Company has entered a letter of appointment with all non-executive Directors including independent non-executive Directors of the Company for a term of three years.

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

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

During the year of 2020, a training session regarding the Listing Rules and directors' responsibilities and obligations was conducted for the newly appointed director and a continuous training was conducted covering the updates of new amendments of the Listing Rules for all Directors.

BOARD MEETINGS

FUNCTIONS

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally has scheduled meetings at quarterly interval each year and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company.

BOARD PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Board secretary and the company secretary are responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comments within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

DIRECTORS' ATTENDANCE RECORDS

During the financial year ended 31 December 2020, seven Board Meetings were held for, among other things, reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company; an annual general meeting was held on 18 June 2020 for reviewing financial statements, approving re-election of directors, re-appointment of auditors, etc. In addition, an extraordinary general meeting was held on 13 March 2020 for reviewing and approving the resolution relating to the adoption of subsidiary share option scheme.

The attendance records of each Director at the Board meetings, the annual general meeting and the extraordinary general meeting during the term of office as a Director during the year ended 31 December 2020 are set out below:

Name of Director	Attendance/Number of Board meetings held during the term of office of the Director Concerned	Attendance/Number of annual general meeting held during the term of office of the Director Concerned	Attendence/Number of extraordinary general meeting held during the term of office of the Director Concerned
Executive Director			
Dr. Zhaohua Chang	6/7	1/1	0/1
Non-executive Directors			
Mr. Norihiro Ashida	7/7	1/1	1/1
Mr. Hiroshi Shirafuji (Retired on 18 June 2020)	3/3	1/1	1/1
Dr. Yasuhisa Kurogi (Elected on 18 June 2020)	4/4	–	–
Mr. Hongliang Yu	7/7	1/1	1/1
Independent Non-executive Directors			
Mr. Jonathan H. Chou	7/7	1/1	1/1
Dr. Guoen Liu	7/7	1/1	1/1
Mr. Chunyang Shao	7/7	1/1	1/1

Directors reviewed the documents of Board Meetings provided by the Company in advance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

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 2020.

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

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

DELEGATION BY THE BOARD

BOARD COMMITTEES

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

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

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

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategic Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request. The Independent Non-executive Directors are invited to serve on these four Board committees. Aside from the aforesaid four Board committees, the Company has also established three Executive Committees to oversee the day-to-day operations of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in Code Provision D.3.1 of the CG Code. During the year ended 31 December 2020, the Board has considered the corporate governance policies and practice and its relevant disclosures; the compliance of the Model Code and the Employees Written Guidelines; and policies and practices on compliance with legal and regulatory requirements as required under the applicable requirements of the Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee in March 2010 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members:

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

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

The main duties of the Audit Committee include the following:

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

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

During the year under review, the Audit Committee reviewed the Group's interim and annual results, interim and annual reports for the year ended 31 December 2020, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held 3 meetings during the year ended 31 December 2020. The attendance records of each member at the Audit Committee meetings during the year ended 31 December 2020 are set out below:

Name of Members concerned	**Attendance/Number of meetings held during the term of office of the Audit Committee member**
Mr. Jonathan H. Chou *(Chairman)*	3/3
Mr. Norihiro Ashida	3/3
Mr. Chunyang Shao	3/3

REMUNERATION COMMITTEE

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

The Remuneration Committee comprises three members:

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

Majority of the members are Independent Non-executive Directors.

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

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

During the year under review, the Remuneration Committee reviewed and made recommendations to the Board on the year end bonus of senior management and the related remuneration policy.

The Remuneration Committee held 4 meetings during the year ended 31 December 2020. The attendance records of each member at the Remuneration Committee meetings during the year ended 31 December 2020 are set out below:

Name of Members concerned	Attendance/Number of meetings held during the term of office of the Remuneration Committee member
Dr. Guoen Liu *(Chairman)*	4/4
Mr. Jonathan H. Chou	4/4
Dr. Zhaohua Chang	4/4

NOMINATION COMMITTEE

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

The Nomination Committee comprises three members:

Mr. Chunyang Shao *(Chairman)*
Dr. Guoen Liu
Mr. Hongliang Yu

Majority of the members are Independent Non-executive Directors.

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

The Company has adopted a director nomination policy. The director nomination policy contains the criteria for nomination and appointment of directors, as well as nomination process. In evaluating and selecting any candidate for directorship, the following criteria should be considered: character and integrity; qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the board diversity policy of the Company that are relevant to the Company's business and corporate strategy; any measurable objectives adopted for achieving diversity on the Board; requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules; any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity; willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company's such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

For the appointment of new Director, the Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable). The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

For re-election of Director at a general meeting of the Company, the Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board. The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

The Company has adopted a Board Diversity Policy which aims to set out the approach to achieve diversity of the Company's Board of Directors. The Company recognizes and embraces the benefits of having a diverse Board and increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. Certain measurable objectives (including gender-related objectives) have been set in the policy. These perspectives include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and regional experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the financial year ended 31 December 2020, a meeting of Nomination Committee was held.

Name of Members concerned	**Attendance/Number of meetings held during the term of office of the Nomination Committee member**
Mr. Chunyang Shao *(Chairman)*	1/1
Dr. Guoen Liu	1/1
Mr. Hongliang Yu	1/1

The members reviewed the current composition of the Board and discussed the Board restructuring to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

The Nomination Committee reviewed the time invested by Non-executive Directors in the Company's affairs, assess the independence of the Independent Non-executive Directors, evaluate the qualification of the candidate for election and recommended the re-appointment of the Directors standing for re-election at the annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

STRATEGIC COMMITTEE

The Company established a strategic committee in March 2019 with written terms of reference.

The Strategic Committee comprises four members:

Dr. Zhaohua Chang *(Chairman)*
Mr. Hiroshi Shirafuji (retired as Director on 18 June 2020)
Dr. Yasuhisa Kurogi (elected as Director on 18 June 2020)
Mr. Jonathan H. Chou
Mr. Hongliang Yu

The primary objectives of the Strategic Committee include researching and making recommendations to the Board on long-term development strategies and rolling strategies, business, operational and financial/capital plans; reviewing and evaluating financial, marketing, operational and business performance of the Company; researching and discussing on trends in markets where the Group operates as well as reviewing and discussing on the implementation of the Group's strategies.

The Strategic Committee did not hold any meetings during the year ended 31 December 2020.

EXECUTIVE COMMITTEE

The Company consists of three distinctive operational business units: Greater China and Inter-Continental respectively managed by Greater China Executive Committee ("CEC"), Inter-Continental Orthopedics Committee ("IOC") and Inter-Continental CRM Committee ("ICC").

As of 31 December 2020, the CEC comprises seven members: Mr. Bo Peng (Chairperson of CEC), Mr. Hongbin Sun (Co-chairperson of CEC), Dr. Qiyi Luo, Mr. Yimin Xu, Dr. Chengyun Yue, Mr. Yiyun Que and Dr. Yinqing Lin. The majority are heads or Vice Presidents of operational departments.

As of 31 December 2020, the IOC comprises four members: Ms. Glendy Wang (Chairperson of IOC), Mr. Benny Hagag (Co-chairperson of IOC), Mr. Todd Smith and Mr. Jonathan Chen.

As of 31 December 2020, the ICC comprises six members: Mr. Jonathan Chen (Chairperson of ICC), Mr. Benoit Clinchamps (Co-chairperson of ICC), Mr. Hongbin Sun, Dr. Qiyi Luo, Dr. Philippe Wanstock and Mr. Paul Vodden.

The CEC, IOC, ICC shall oversee the management of the Company relating to routine, administrative, operational and managerial matters that occur between regularly scheduled meetings of the Board and shall provide support to and be responsible to the Board. Subject to the provisions set out in the charters of CEC, IOC, ICC, the three committees basically will have and may exercise all the powers and authority granted by the Board in the management of business and affairs of MicroPort Shanghai, MicroPort Orthopedics and MicroPort CRM respectively.

During the reporting period, CEC, IOC and ICC held meetings periodically and frequently to carry out their duties.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the financial year ended 31 December 2020.

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

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

AUDIT COMMITTEE

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

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

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

The activities carried out by the Audit Committee during the year are set out in this Corporate Governance Report on page 58 to 59 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems, reviewing their effectiveness at least once a year through Audit Committee. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the year of 2020, the Audit Committee has reviewed the Group's internal control and risk management systems and processes which covered the whole financial year.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, establishing and maintaining appropriate effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation, monitoring the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including sales, purchasing, financial reporting, expense, fixed assets, contract management, human resources, information technology and so on.

Through interviews and questionnaires, the Internal Audit Department conducted independent risk assessment regularly to identify risks that potentially impact the business of the Group and various aspects including strategic risks, financial risks, market risks, operation risks, legal risks and so on.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, the impact, the vulnerability and the velocity. Also they provided treatment plans, and monitored the risk management progress.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls, provided its findings and recommendations for improvement to auditees and report the remediation periodically to the Audit Committee.

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems, including the financial, operational and compliance controls periodically and considered such systems are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Monitoring procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Company would appoint independent consultancy firm to conduct a thorough review of risk management and internal control systems of the Company and its subsidiaries on regular intervals basis when necessary.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 68 to 74 in this annual report.

For the financial year ended 31 December 2020, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services

Auditors	**Fees (US$'000)**
KPMG	2,234

The audit service performed by KPMG related to the statutory audit of the Group's consolidated financial statements for the financial year ended 31 December 2020.

Non-audit Services

Auditors	Fees (US$'000)
KPMG	417

During the year ended 31 December 2020, non-audit services performed by KPMG are primarily in relation to tax and certain acquisitions related services.

COMPANY SECRETARY

Ms. Chan Wing Sze ("Ms. Chan") had been the company secretary of the Company during the period from 1 January 2020 and has resigned on 15 January 2020. Ms. Yuen Wing Yan Winnie ("Ms. Yuen") was appointed as the company secretary of the Company in place of Ms. Chan since 15 January 2020.

Each of Ms. Chan and Ms. Yuen was nominated by Tricor Services Limited, the external professional service provider, and engaged by the Company as its company secretary in compliance with the Listing Rules.

Each of Ms. Chan and Ms. Yuen had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training during the year ended 31 December 2020.

During the year ended 31 December 2020, the primary person at the Company with whom each of Ms. Chan and Ms. Yuen had been contacting in respect of company secretarial matters was Ms. He Li, the Board Secretary of the Company, who was responsible for Board procedures and communications among Directors with shareholders and management.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

To promote effective communication, the Company maintains a website at www.microport.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write to the Company at its principal place of business in Hong Kong or China or via the Company's website for any enquiries. During the periods of interim results and annual results release, dual-languages conference calls, non-deal roadshows are held for ensuring effective and timely communication to shareholders and investors. Normally, the Company also accommodated shareholders' and investors' site visits by arranging meetings with senior managements.

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

SHAREHOLDER RIGHTS

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

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

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

Pursuant to Article 12.3 of the Articles of Association of the Company, an extraordinary general meeting shall be convened on the written requisition of (1) any two or more members of the Company; or (2) a recognized clearing house (or its nominees(s)) deposited at the principal place of business of the Company in Hong Kong (Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) for the attention of the Board or, in the event the Company ceases to have such a principal place of business in Hong Kong, the registered office of the Company (PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands) for the attention of the Board.

The written requisition shall specify the objects of the extraordinary general meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the written requisition not less than one-tenth of the paid up capital of the Company which carries the voting right at general meetings of the Company.

If the Board does not, within 21 days from the date of deposit of the written requisition, proceed duly to convene the extraordinary general meeting to be held within a further 21 days, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them, may convene the extraordinary general meeting in the same manner, as nearly as possible, as that in which extraordinary general meeting may be convened by the Board, provided that any extraordinary general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

DIVIDEND POLICY

The Company has adopted a Dividend Policy on payment of dividends. When proposing the payment of dividend, various elements would be taken into consideration including but not limited to the Company's strategic development objectives, operation plan, profitability, cash flow and financing. The policy sets out the factors in consideration, procedures, methods and intervals of the payment of dividends with an objective to provide the shareholders with continuing, stable and reasonable returns on investment while maintaining the Company's business operation and achieving its long-term development goal.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 1601 Zhangdong Road, Zhangjiang Hi-Tech Park, Shanghai 201203, The People's Republic of China (For the attention of the Board Secretary)
Fax: (86) (21) 50801305
Email: ir@microport.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

CONSTITUTIONAL DOCUMENTS

There have been no changes in the Company's constitutional documents during the year ended 31 December 2020.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the significant changes that have occurred since the end of 2020 to the date of approval of this report.

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

Shanghai, The PRC
30 March 2021

INDEPENDENT AUDITOR'S REPORT

to the shareholders of MicroPort Scientific Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of MicroPort Scientific Corporation ("the Company") and its subsidiaries ("the Group") set out on pages 75 to 188, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on pages 105 to 106.

The Key Audit Matter

The Group recognises revenue from the sale of medical devices at a point in time when control of goods is transferred to the customer. The amount to which the Group expects to be entitled can vary due to sales rebates granted to customers explicitly identified in the sales contracts signed with customers.

In addition, in respect of the cardiac rhythm management ("CRM") business, the Group renders certain post-sales services to patients in accordance with industry practice, to ensure the safe and effective use of the sold devices implanted into the patients until the implanted device needs to be replaced. This implied promise in the contract with the customer requires the allocation of the transaction price between the sale of devices performance obligation and the post-sales services performance obligation.

The sales rebates granted to customers are primarily volume based. Revenue from sales subject to volume rebate arrangements is recognised at the net amount of consideration to which the Group is entitled, after adjusting for the estimated amount that the Group may be required to rebate to the customer in respect of these sales, unless it is highly probable that the customer will not satisfy the rebate entitlement criteria within the rebate period.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition including the identification of performance obligations in contracts with customers, the variable consideration and management's review of the calculation of and adjustments for sales rebates;

- inspecting, on a sample basis, key customer contracts to identify terms and conditions relating to transfer of goods control, sales rebates, and identification of performance obligations and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

- selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including purchase volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data in the computer system records) to assess whether the methodology adopted in the calculation of the sales rebates was in accordance with the terms and conditions defined in the corresponding customer contract;

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition (Continued)

Refer to note 3 to the consolidated financial statements and the accounting policies on pages 105 to 106.

The Key Audit Matter	How the matter was addressed in our audit
When the Group no longer expects to rebate or refund the customer, any amounts previously deferred are recognised as revenue. For the CRM business, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the goods or services underlying each performance obligation. If the observable stand-alone selling prices are not available, the Group uses an expected cost plus a margin approach to estimate the stand-alone selling price. Upon the sales of those implanted devices, which require post-sales service, the Group defers revenue allocated to those unfulfilled performance obligations and recognises these services over the service period when they are rendered, which is estimated as 8 to 12 years based on the expected product lives of different implanted devices. We identified the recognition of revenue as a key audit matter because (i) revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations, (ii) the variety of different terms of sale may affect the timing of the recognition of revenue; and because significant management judgement can be required to estimate sales rebates for all products and to estimate the standalone selling price and product lives of implanted devices for CRM business.	• comparing the actual sales rebates recorded after the financial year end with the variable consideration adjustments estimated by the management in these respects during the year in order to assess the reliability of management's process for determining the consideration to which the Group is entitled and to assess if the adjustments for the related variable consideration had been made as a reduction of the transaction price in the appropriate financial period; • understanding the methodology in deriving the deferred revenue in relation to the post-sales services for CRM business; performing the retrospective review on the historical information in terms of the estimated product lives used in the calculation; evaluating the key assumptions adopted in the estimation of stand-alone selling prices including the average costs and frequency of the provision of each post-sales service; benchmarking the key assumptions and estimations with the available industry reports or government statistics; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and • inspecting underlying documentation for journal entries relating to revenue which were considered to be material or met other specific risk-based criteria.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of intangible assets and goodwill

Refer to notes 11 and 12 to the consolidated financial statements and the accounting policies on pages 96 to 97.

The Key Audit Matter

The carrying values of the Group's intangible assets and goodwill as at 31 December 2020 were US$138.4 million and US$159.5 million, respectively.

Goodwill arose from the previous acquisitions which has been primarily allocated to the orthopedics devices business and CRM business. Intangible assets principally comprise technology, product licenses, customer relationships and capitalised development costs, which have been allocated to various segments.

Management performs annual impairment assessments of the Group's goodwill and intangible assets that are not yet available for use by comparing the carrying values of these assets with their recoverable amounts being the higher of the fair value less costs of disposal and the value in use.

The preparation of discounted cash flow forecasts involves the exercise of significant management judgment, in particular in assessing future revenue growth, future gross margins future capital expenditure and working capital movements and in determining the long-term growth rate and appropriate discount rates.

We identified the assessment of potential impairment of intangible assets and goodwill as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, which can be inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of intangible assets and goodwill included the following:

- evaluating management's identification of CGUs and the allocation of intangible assets and goodwill to each CGU and assessing the methodology adopted by management in its impairment assessments with reference to the requirements of the prevailing accounting standards;
- evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing data in the discounted cash flow forecasts with the relevant data, including forecast revenue, forecast cost of sales and forecast operating expenses, in the financial budgets which was approved by the board of directors and with available industry statistics;
- comparing the data in discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified;
- engaging KPMG valuation specialists to assist us in comparing the long-term growth rates and discount rates applied in the discounted cash flow forecasts with those of comparable companies and external market data if available;
- performing a sensitivity analysis of key assumptions, including future revenue growth rates, future gross margins and the discount rates applied in the discounted cash flow forecasts and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias in the selection of these key assumptions; and
- considering the disclosures in the consolidated financial statements in respect of management's impairment assessments of intangible assets and goodwill with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.
Independent auditor's report

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Au Yat Fo.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2020
(Expressed in United States dollars)

	Note	2020 US$'000	2019 US$'000
Revenue	*3*	**648,732**	793,493
Cost of sales		**(212,700)**	(229,068)
Gross profit		**436,032**	564,425
Other net income	*4*	**32,924**	18,667
Research and development costs		**(192,629)**	(151,486)
Distribution costs		**(254,105)**	(275,266)
Administrative expenses		**(170,105)**	(119,345)
Other operating costs	*5(c)*	**(19,678)**	(8,538)
(Loss)/profit from operations		**(167,561)**	28,457
Finance costs	*5(a)*	**(39,712)**	(22,698)
Gain on disposal of subsidiaries		**–**	63,105
Gain on disposal of interests in equity-accounted investees		**1,062**	–
Share of profits less losses of equity-accounted investees		**(6,730)**	(5,656)
(Loss)/profit before taxation	*5*	**(212,941)**	63,208
Income tax	*6(a)*	**(10,407)**	(34,199)
(Loss)/profit for the year		**(223,348)**	29,009
Attributable to:			
Equity shareholders of the Company		**(191,252)**	46,281
Non-controlling interests		**(32,096)**	(17,272)
(Loss)/profit for the year		**(223,348)**	29,009
(Loss)/earnings per share	*9*		
Basic (in cents)		**(10.97)**	2.92
Diluted (in cents)		**(11.11)**	1.98

The notes on pages 83 to 188 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the year are set out in note 28(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020
(Expressed in United States dollars)

	2020 US$'000	2019 US$'000
(Loss)/profit for the year	**(223,348)**	29,009
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	**(592)**	(786)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**117,657**	(13,703)
Other comprehensive income for the year	**117,065**	(14,489)
Total comprehensive income for the year	**(106,283)**	14,520
Attributable to:		
Equity shareholders of the Company	**(90,973)**	34,399
Non-controlling interests	**(15,310)**	(19,879)
Total comprehensive income for the year	**(106,283)**	14,520

The notes on pages 83 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2020 US$'000	31 December 2019 US$'000
Non-current assets			
Investment properties	*10*	**5,284**	5,222
Other property, plant and equipment	*10*	**481,203**	428,786
		486,487	434,008
Intangible assets	*11*	**138,397**	125,811
Goodwill	*12*	**159,483**	160,520
Equity-accounted investees	*14*	**87,063**	54,183
Other financial assets	*15*	**19,605**	20,125
Deferred tax assets	*24(b)*	**15,502**	13,171
Prepayments for non-current assets		**7,724**	7,551
Other non-current assets	*16*	**75,009**	41,628
		989,270	856,997
Current assets			
Inventories	*17*	**240,187**	192,321
Trade and other receivables	*18*	**236,976**	266,789
Pledged deposits and time deposits		**623**	1,767
Cash and cash equivalents	*19*	**1,002,077**	280,077
		1,479,863	740,954
Current liabilities			
Trade and other payables	*20*	**372,472**	283,780
Contract liabilities	*21*	**62,008**	9,522
Interest-bearing borrowings	*22*	**10,891**	32,092
Convertible bonds	*26*	**–**	83,107
Lease liabilities	*23*	**12,074**	10,178
Income tax payable	*24(a)*	**52,682**	13,122
Derivative financial liabilities	*30(e)*	**9,252**	–
		519,379	431,801
Net current assets		**960,484**	309,153
Total assets less current liabilities		**1,949,754**	1,166,150

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	31 December 2020 US$'000	31 December 2019 US$'000
Non-current liabilities			
Interest-bearing borrowings	*22*	**181,988**	288,107
Lease liabilities	*23*	**42,774**	44,527
Deferred income	*25*	**37,844**	24,895
Contract liabilities	*21*	**29,855**	21,463
Convertible bonds	*26*	**48,583**	–
Other payables	*20*	**203,023**	116,789
Deferred tax liabilities	*24(b)*	**4,122**	3,600
Derivative financial liabilities	*30(e)*	**13,619**	12,804
		561,808	512,185
NET ASSETS		**1,387,946**	653,965
CAPITAL AND RESERVES			
Share capital	*28(c)*	**18**	16
Reserves		**1,127,945**	519,008
Total equity attributable to equity shareholders of the Company		**1,127,963**	519,024
Non-controlling interests		**259,983**	134,941
TOTAL EQUITY		**1,387,946**	653,965

Approved and authorised for issue by the board of directors on 30 March 2021.

Zhaohua Chang
Chairman

Jonathan H. Chou
Director

The notes on pages 83 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020
(Expressed in United States dollars)

		Attributable to equity shareholders of the Company								
	Note	Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2019		16	349,089	(34,593)	32,143	29,164	66,329	442,148	85,934	528,082
Changes in equity for 2019:										
Profit for the year		–	–	–	–	–	46,281	46,281	(17,272)	29,009
Other comprehensive income		–	–	(11,291)	(591)	–	–	(11,882)	(2,607)	(14,489)
Total comprehensive income		–	–	(11,291)	(591)	–	46,281	34,399	(19,879)	14,520
Net contributions from non-controlling shareholders of subsidiaries		–	–	–	54,283	–	–	54,283	71,543	125,826
Disposal of subsidiaries		–	–	–	–	–	–	–	(1,618)	(1,618)
Appropriation of statutory general reserve		–	–	–	–	16,291	(16,291)	–	–	–
Equity-settled share-based transactions	*27(f)*	–	–	–	6,571	–	–	6,571	238	6,809
Shares issued under share option scheme	*28(c)(iii)*	–	3,481	–	(874)	–	–	2,607	–	2,607
Lapse of share options		–	–	–	(774)	–	774	–	–	–
Shares purchased under share award scheme	*27(b)*	–	–	–	(17,632)	–	–	(17,632)	–	(17,632)
Shares granted under share award scheme	*27(b)*	–	–	–	10,578	–	–	10,578	–	10,578
Conversion of convertible bonds		–	7,416	–	(1,447)	–	–	5,969	–	5,969
Change in carrying amounts of share repurchase obligations of a subsidiary		–	–	–	(16,469)	–	–	(16,469)	–	(16,469)
Dividends paid in respect of the previous year	*28(b)*	–	2,521	–	–	–	(5,951)	(3,430)	–	(3,430)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	(1,277)	(1,277)
Balance at 31 December 2019		16	362,507	(45,884)	65,788	45,455	91,142	519,024	134,941	653,965

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020
(Expressed in United States dollars)

		Attributable to equity shareholders of the Company								
	Note	Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Capital reserve US$'000	Statutory general reserve US$'000	Retained profits/ (accumulated losses) US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 31 December 2019		16	362,507	(45,884)	65,788	45,455	91,142	519,024	134,941	653,965
Changes in equity for 2020:										
Loss for the year		–	–	–	–	–	(191,252)	(191,252)	(32,096)	(223,348)
Other comprehensive income		–	–	100,726	(447)	–	–	100,279	16,786	117,065
Total comprehensive income		–	–	100,726	(447)	–	(191,252)	(90,973)	(15,310)	(106,283)
Issue of ordinary shares by placing, net of issuance costs	*28(c)(i)*	1	198,926	–	–	–	–	198,927	–	198,927
Net contributions from non-controlling shareholders of subsidiaries		–	–	–	180,642	–	–	180,642	151,402	332,044
Disposal of interests in subsidiaries without losing control	*29(a)&(c)*	–	–	–	173,744	–	–	173,744	(10,550)	163,194
Appropriation of statutory general reserve		–	–	–	–	52,387	(52,387)	–	–	–
Equity-settled share-based transactions	*27*	–	–	–	15,678	–	–	15,678	3,035	18,713
Shares issued under share option scheme	*28(c)(iii)*	–	14,817	–	(3,841)	–	–	10,976	–	10,976
Shares purchased under share award scheme	*27(b)*	–	–	–	(3,496)	–	–	(3,496)	–	(3,496)
Shares granted under share award scheme	*27(b)*	–	–	–	39,888	–	–	39,888	11	39,899
Conversion of convertible bonds	*26(a)*	1	92,125	–	(8,926)	–	–	83,200	–	83,200
Convertible bonds issued by a subsidiary	*26(b)*	–	–	–	1,763	–	–	1,763	–	1,763
Preferred shares issued by a subsidiary		–	–	–	13,570	–	–	13,570	–	13,570
Change in carrying amounts of share repurchase obligations of a subsidiary	*20*	-	-	-	(8,319)	-	-	(8,319)	-	(8,319)
Dividends paid in respect of the previous year	*28(b)*	–	(6,661)	–	–	–	–	(6,661)	–	(6,661)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	(3,546)	(3,546)
Balance at 31 December 2020		18	661,714	54,842	466,044	97,842	(152,497)	1,127,963	259,983	1,387,946

The notes on pages 83 to 188 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

for the year ended 31 December 2020
(Expressed in United States dollars)

	Note	2020 US$'000	2019 US$'000
Operating activities			
Cash (used in)/generated from operations	*19(b)*	**(9,229)**	50,652
Income tax refund received		**10,431**	4,776
Tax paid:			
– The People's Republic of China ("PRC") income tax paid		**(22,515)**	(26,014)
– Non-PRC income tax paid		**(1,887)**	(2,963)
Net cash (used in)/generated from operating activities		**(23,200)**	26,451
Investing activities			
Payments for the purchase of property, plant and equipment		**(103,514)**	(97,042)
Proceeds from an arbitration in relation to an acquisition in previous year	*4(ii)*	**16,420**	–
Proceeds from disposal of subsidiaries, net of cash disposed		**–**	31,028
Proceeds from sale of property, plant and equipment and intangible assets		**2,089**	3,467
Payments for intangible assets		**(16,866)**	(18,050)
Proceeds from government grants related to non-current assets		**12,848**	331
Decrease in pledged deposits and time deposits		**1,144**	1,770
Uplift of structured deposits with banks		**348,414**	23,469
Placement of structured deposits with banks		**(348,414)**	(23,464)
Interest received		**4,273**	2,674
Payments for the investments in equity-accounted investees		**(32,252)**	(2,920)
Payments for the investments in other non-current financial assets		**(6,595)**	(8,044)
Proceeds from disposal of other non-current financial assets		**2,000**	–
Loans to a related party	*16*	**(24,205)**	–
Loans to equity-accounted investees	*32(b)*	**(3,775)**	(3,905)
Loans repaid by equity-accounted investees	*32(b)*	**300**	1,485
Advances repaid by a third party		**–**	11,900
Others		**–**	(2,655)
Net cash used in investing activities		**(148,133)**	(79,956)

CONSOLIDATED CASH FLOWS STATEMENT

for the year ended 31 December 2020
(Expressed in United States dollars)

	Note	2020 US$'000	2019 US$'000
Financing activities			
Capital element of lease rentals paid	*19(c)*	**(10,232)**	(8,479)
Interest element of lease rentals paid	*19(c)*	**(2,671)**	(2,469)
Proceeds from interest-bearing borrowings, net of transaction costs	*19(c)*	**149,271**	161,971
Repayments of interest-bearing borrowings	*19(c)*	**(284,267)**	(76,624)
Proceeds from issuance of convertible bonds by a subsidiary	*26*	**50,000**	–
Proceeds from issuance of the ordinary shares of the Company	*28(c)(i)*	**198,927**	–
Proceeds from preferred shares issued by subsidiaries		**175,000**	45,000
Acquisition of non-controlling interests		**(30,788)**	(1,563)
Proceeds from disposal of interests in subsidiaries without losing control		**248,643**	–
Net contributions from non-controlling interests		**366,420**	124,724
Proceeds from shares issued under the share option scheme	*28(c)(iii)*	**11,729**	1,854
Interest paid for the convertible bonds		**–**	(3,219)
Interest paid for interest-bearing borrowings	*19(c)*	**(10,804)**	(13,533)
Advances (repaid to)/lent from an equity-accounted investee	*32(b)*	**(633)**	2,038
Payment for repurchase of shares under share award scheme	*27(b)*	**(3,496)**	(17,632)
Dividends paid to holders of non-controlling interests		**(3,546)**	(1,277)
Dividends paid to equity shareholders of the Company	*28(b)*	**(6,661)**	(3,430)
Net cash generated from financing activities		**846,892**	207,361
Net increase in cash and cash equivalents		**675,559**	153,856
Cash and cash equivalents at 1 January		**280,077**	130,054
Effect of foreign exchange rate changes		**46,441**	(3,833)
Cash and cash equivalents at 31 December		**1,002,077**	280,077

The notes on pages 83 to 188 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the 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. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) 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 accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 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 as explained in the accounting policies set out below:

– investments in debt and equity securities (see note 1(g)); and

– derivative financial instruments (see note 1(h))

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(r), (s) and (u) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)(iii)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and 1(m)(iii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (see note 1(m)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

In the Company's statement of financial position, investments in associates and joint venture are accounted for using the equity method.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 30(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(z)(v)).

- fair value through other comprehensive income ("FVOCI") - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- fair value through profit or loss ("FVPL") if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities (continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(z)(iv).

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(m)(iii)). Depreciation is calculated to write off the cost of investment property less its estimated residual value using the straight line method over its estimated useful life. Rental income from investment properties is accounted for as described in note 1(z)(iii).

(j) Other property, plant and equipment

Other property, plant and equipment, including right-of-use assets arising from leases over leasehold properties, plant and equipment where the Group is not the registered owner of the property interest (see note 1(l)) are stated at cost less accumulated depreciation and impairment losses (see note 1(m)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(bb)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Other property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Freehold land is not depreciated;

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

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

– Equipment and machinery	5 to 11 years
– Office equipment, furniture and fixtures	3 to 10 years
– Motor vehicles	4 to 10 years

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

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(bb)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets (other than goodwill) (continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Technologies	9 to 17 years
– Products licences	12 to 17 years
– Capitalised development costs	5 to 10 years
– Customer contracts and related customer relationship	1.5 to 10 years
– Trademark and others	35 months to 20 years

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets (continued)

(i) As a lessee (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(j) and 1(m)(iii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(z)(iii).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for ECL on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, pledged deposits, time deposits, trade and other receivables and amounts due from equity-accounted investees, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

– contract assets as defined in HKFRS 15 (see note 1(o)); and

– lease receivables.

Other financial assets measured at fair value, including equity and debt securities measured at FVPL and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate; and

– lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(z)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(m)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investment properties;

– other property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill;

– investments in equity-accounted investees; and

– investments in subsidiaries and equity-accounted investees in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets (continued)

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 1(m)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(z)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 1(m)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(p)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(z)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(p)). A contract liability also includes variable considerations such as rebates and refunds which are to offset further purchases from the customers.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(z)(v)).

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(o)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(m)(i)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(m)(i).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Convertible bonds issued

(i) Convertible bonds issued that contain an equity component

Convertible bonds that can be converted into ordinary shares at the option of the holder, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bonds are converted or redeemed.

If the bonds are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds issued

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the host liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the host liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 1(h). The host liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the host liability component is calculated using the effective interest method.

If the bonds are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Convertible bonds issued (continued)

(iii) Modification of convertible bonds

When the contractual cash flows of convertible bonds are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that convertible bonds, an entity shall recalculate the gross carrying amount of the convertible bonds and shall recognise a modification gain or loss in profit or loss in the year of which the modification is made. The gross carrying amount of the convertible bond shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at its original effective interest. Any costs or fees incurred adjust the carrying amount of the modified convertible bonds and are amortised over the remaining term of the modified convertible bonds.

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expenses is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(bb)).

(t) Repurchase and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is deducted from equity attributable to the Company's equity holders. Repurchased shares held at the end of reporting period are classified as treasury shares and are presented as a decrease in the capital reserve. When treasury shares are sold or reissued subsequently, the consideration received, net of any directly attributable transaction costs, is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in capital reserve.

(u) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(m)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Preferred shares

The preferred shares issued by the subsidiaries are classified, on the basis of their component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Preferred shares issued by the subsidiaries are classified as equity if they are non-redeemable by the Group or redeemable only at the Group's option, and any dividends are discretionary. Dividends on preferred shares capital classified as equity are recognised as distributions within equity.

Preferred shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the non-controlling shareholders (including options that are only exercisable in case of triggering events having occurred), or if dividend payments are not discretionary. The liability is recognised and mentioned in accordance with the Group's policy for interest-bearing borrowings set out in note 1(s) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Preferred shares (continued)

Conversion features of preferred shares are classified separately as equity if the option will be settled by exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments. The equity component is the difference between the initial fair value of the preferred shares as a whole and the initial far value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

(w) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Employee benefits (continued)

(iii) Share-based payments

The fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the equity-settled share-based payment awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity-settled share-based payment awards, the total estimated fair value of the equity-settled share-based payment awards is spread over the vesting period, taking into account the probability that the equity-settled share-based payment awards will vest.

During the vesting period, the number of equity-settled share-based payment awards that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity-settled share-based payment awards that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the equity-settled share-based payment awards is exercised (when it is included in the amount recognised in share capital for the share issued) or the equity-settled share-based payment awards expires (when it is released directly to retained profits).

The fair value of the amount payable to employees in respect of the long-term incentive awards, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at grant date and at the end of each reporting date after taking into account all vesting and non-vesting conditions, including service conditions and non-market performance conditions.

Share-based payment transactions in which the Company grants share based payment awards to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's financial position which is eliminated on consolidation.

(iv) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(v) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(y) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Provisions, contingent liabilities and onerous contracts (continued)

(iii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(y)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(y)(i).

(z) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of medical devices

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Revenue and other income (continued)

(ii) Revenue from post-sales services

The Group also renders certain post-sales services to patients in accordance with industry practice, to ensure the safe and effective use of the sold devices implanted into the patient until the implanted device needs to be replaced. The total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the goods or services underlying each performance obligation. If the observable stand-alone selling prices are not available, the Group uses an expected costs plus a margin approach to estimate the stand-alone selling price. Upon the sales of those implanted devices, which requires post-sales service, the Group defers revenue allocated to those unfulfilled performance obligations and recognises these services over the service period when they are rendered, which is estimated as 8 to 12 years based on the expected product lives of different implanted devices.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iv) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounted estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(vi) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(bb) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(cc) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(cc) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

(dd) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

There is no significant effect on the amounts recognised in the consolidated financial statements arising from the judgements.

Notes 5(b), 12, 27 and 30(e) contain information about the assumptions and their risk factors relating to defined benefit retirement plans, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Net realisable value of inventories

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

(ii) Income tax

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

(iii) Impairment of non-current assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years. Goodwill and intangible assets not yet available for use are tested for impairment at least annually even if there is no indication of impairment.

(iv) Revenue recognition

As explained in policy note 1(z), revenue from sales of medical devices is after the deduction of sales discounts. Such revenue recognition is dependent on estimating the sales rebates granted to customers which are primely volume based. Based on the Group's experience, the Group has made estimates to the extent which it considered that it is highly probable that the customer will not satisfy the rebate entitlement criteria within the rebate period.

For the cardiac rhythm management business (the "CRM"), business, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative stand-alone selling prices of the goods or services underlying each performance obligation. The Group allocated the transaction price of each performance obligation and recognised the post-sales services over the period, by considering the average costs and frequency of the provision of each post-sales service and the estimated product lives. These estimates are based on the historical information as well as prevailing market conditions. Management reassessed the estimation based on related available information at the balance sheet date. Changes in facts and circumstances may result in revisions to the conclusion, which would affect profit or loss in future years.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Determining the lease term

As explained in policy note 1(l), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group derives revenue principally from the sales of medical devices through appointed distributors and direct sales force, as well as rendering of post-sales services primarily for CRM business. Further details regarding the Group's principal activities are disclosed in note 3(b).

(i) Disaggregation of revenue

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

	2020 **US$'000**	2019 US$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Sales of medical devices	**636,092**	779,557
– Revenue from post-sales services	**12,132**	13,701
	648,224	793,258
Revenue from other sources		
– Gross rentals from investment properties	**508**	235
	648,732	793,493

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 3(b)(i) and 3(b)(iii) respectively.

The Group's customer base is diversified. For the years ended 31 December 2020 and 2019, there was no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 30(a).

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

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

As at 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts was US$54,776,000 (2019: US$29,097,000). 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. 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 and peripheral vascular devices business: sales, manufacture, research and development of endovascular and peripheral vascular devices.
- Neurovascular devices business: sales, manufacture, research and development of neurovascular devices.
- Heart valve business: sales, manufacture, research and development of heart valve devices.
- Surgical robot business: sales, manufacture, research and development of surgical robot devices.
- Surgical devices business: sales, manufacture, research and development of surgical devices.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(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.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

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 2020 and 2019 is set out below.

	2020									
	Cardiovascular devices business US$'000	Orthopedics devices business US$'000	CRM business US$'000	Endovascular and peripheral vascular devices business US$'000	Neurovascular devices business US$'000	Heart valve business US$'000	Surgical robot business US$'000	Surgical devices business US$'000	Others* US$'000	Total US$'000
Disaggregated by timing of revenue recognition										
Point in time – sales of medical devices	144,655	201,348	168,167	68,487	32,790	15,204	-	4,627	814	636,092
Over time – post-sales services	-	-	12,132	-	-	-	-	-	-	12,132
Over time – rental income	105	260	-	-	143	-	-	-	-	508
	144,760	201,608	180,299	68,487	32,933	15,204	-	4,627	814	648,732
Reportable segment net profit/(loss)	18,857	(61,433)	(47,245)	30,766	5,037	(57,867)	(25,328)	(3,349)	(18,463)	(159,025)
Interest income from bank deposits and structured deposits	578	-	-	1,261	31	758	1,167	6	16	3,817
Interest expense	900	5,018	6,414	174	563	20,821	11	-	-	33,901
Depreciation and amortisation for the year	20,763	27,754	12,181	2,964	2,587	3,110	361	897	201	70,818
Income tax	(767)	1,760	1,739	5,890	555	-	-	1	-	9,178
Increase/(decrease) of inventory provision	1,800	2,472	(2,899)	(299)	276	563	-	(4)	19	1,928
Provision/(reversal of) for impairment of:										
– Property, plant and equipment	-	114	-	-	-	-	-	-	-	114
– Trade and other receivables	75	1,052	-	112	3	-	-	(401)	-	841
– intangible assets	-	1,835	-	-	-	-	-	-	-	1,835
Reportable segment assets	749,809	449,729	393,256	213,536	123,957	169,152	262,223	23,787	80,010	2,465,459
Additions to non-current segment assets during the year	48,015	26,559	9,925	3,672	7,557	7,149	19,477	2,010	10,966	135,330
Reportable segment liabilities	137,905	245,525	239,745	25,680	63,121	221,945	31,848	9,200	3,043	978,012

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2019									
	Cardiovascular devices business US$'000	Orthopedics devices business US$'000	CRM business US$'000	Endovascular and peripheral vascular devices business US$'000	Neurovascular devices business US$'000	Heart valve business US$'000	Surgical robot business US$'000	Surgical devices business US$'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	3,119	–	4,695	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	3,119	–	4,695	3,422	793,493
Reportable segment net profit/(loss)	111,357	(30,794)	(54,837)	20,465	5,050	(20,962)	(6,735)	(5,192)	(11,877)	6,475
Interest income from bank deposits and structured deposits	541	56	5	1,351	15	9	98	6	5	2,086
Interest expense	212	5,088	5,512	159	242	1,389	–	6	55	12,663
Depreciation and amortisation for the year	14,907	26,539	13,257	2,012	1,587	1,643	187	842	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	76,638	15,814	33,710	47,316	1,660,965
Additions to non-current segment assets during the year	45,925	38,051	13,085	3,887	9,669	8,680	2,536	2,290	236	124,359
Reportable segment liabilities	111,886	226,645	212,613	16,109	17,590	57,392	3,981	19,787	397	666,400

* 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, diabetes and endocrinal devices business, etc. None of those segments individually met any of the quantitative thresholds for reportable segments.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2020 US$'000	2019 US$'000
Profit or loss		
Reportable segment net (loss)/profit	**(159,025)**	6,475
Share awards scheme (Note)	**(35,285)**	(2,993)
Other equity-settled share-based payment expenses	**(5,409)**	(7,258)
Unallocated exchange (loss)/gain	**(509)**	1,385
Gain on disposal of subsidiaries, net of tax	**–**	55,843
Unallocated expenses, net	**(23,120)**	(24,443)
Consolidated (loss)/profit for the year	**(223,348)**	29,009
Assets		
Reportable segment assets	**2,465,459**	1,660,965
Elimination of inter-segment assets	**(74,469)**	(89,517)
Unallocated corporate assets:		
– Cash and cash equivalents	**44,782**	20,850
– Other receivables	**1,658**	–
– Investments in debt and equity securities	**3,613**	5,527
– loans to a related party (note 16)	**26,700**	–
– Others	**1,390**	126
Consolidated total assets	**2,469,133**	1,597,951

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2020 **US$'000**	2019 US$'000
Liabilities		
Reportable segment liabilities	**978,012**	666,400
Elimination of inter-segment liabilities	**(74,469)**	(89,517)
Derivative financial liabilities	**11,116**	11,162
Convertible bonds	**–**	83,107
Interest-bearing borrowings	**–**	169,142
Share repurchase obligations (note 20(ii))	**98,020**	89,701
Income tax payable arising from partial disposal of equity interests in a subsidiary	**57,419**	–
Unallocated corporate liabilities	**11,089**	13,991
Consolidated total liabilities	**1,081,187**	943,986

Note: The amount of share award scheme during the year ended 31 December 2020 includes the impact of restricted share units granted to the chairman amounting to US$32,747,000.

(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, 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.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographic information (continued)

Revenue from external customers

	2020 US$'000	2019 US$'000
The PRC (country of domicile)	**289,403**	361,242
North America	**87,800**	105,373
Europe	**206,510**	248,713
Asia (excluding the PRC)	**57,196**	56,338
South America	**5,748**	13,783
Others	**2,075**	8,044
	359,329	432,251
	648,732	793,493

Specified non-current assets

	2020 US$'000	2019 US$'000
The PRC (country of domicile)	**539,576**	458,072
North America	**107,041**	121,378
Europe	**202,554**	176,876
Asia (excluding the PRC)	**27,346**	13,971
South America	**2,241**	4,225
Others	**396**	–
	339,578	316,450
	879,154	774,522

4 OTHER NET INCOME

	2020 US$'000	2019 US$'000
Government grants (i)	**28,412**	16,345
Interest income on bank deposits and structured deposits	**4,777**	2,674
Interest income on financial assets carried at amortised cost	**1,488**	867
Net (loss)/gain on disposal of property, plant and equipment	**(570)**	594
Net foreign exchange gain	**2,019**	176
Net realised and unrealised losses on financial instruments carried at FVPL	**(13,246)**	(2,005)
Gain on modification of the convertible bonds	**–**	1,012
Refund from an arbitration in relation to an acquisition in previous year (ii)	**16,420**	–
Others	**(6,376)**	(996)
	32,924	18,667

Note:

i 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$21,378,000 (2019: US$15,108,000) to compensate the Group for research expenses already incurred and conditional grants of US$7,034,000 (2019: US$1,237,000) transferred from deferred income as the conditions attaching to the grant were complied with during the year ended 31 December 2020 (note 25).

ii 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 PLC ("LivaNova"), the purchase price consideration is subject to an adjustment after the initial closing (the "Adjustment Amount"). In March 2020, the arbitrator appointed by the Group and LivaNova determined that LivaNova shall refund a total of US$16,420,000 as the Adjustment Amount to the Group. The Adjustment Amount was fully received by the Group and recognised in profit or loss directly for the year ended 31 December 2020.

5 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	2020 US$'000	2019 US$'000
Interest on the convertible bonds (note 26)	**439**	2,902
Interest on interest-bearing borrowings	**10,120**	13,487
Interest on preferred shares issued by subsidiaries (note 20(ii))	**24,303**	1,099
Interest on lease liabilities (note 10(b))	**2,455**	2,469
Total interest expense on financial liabilities not at fair value through profit or loss	**37,317**	19,957
Interest accrued on advance payments from customers (note 21)	**69**	1,761
Others	**2,326**	1,372
Less: Interest expense capitalised into properties under development at a rate of 4.7% per annum	**–**	(392)
	39,712	22,698

(b) Staff costs

	2020 US$'000	2019 US$'000
Contributions to defined contribution retirement plans	**10,411**	18,916
Expenses recognised in respect of defined benefit retirement plans	**617**	381
Equity-settled share-based payment expenses (note 27(f))	**55,665**	18,526
Cash-settled share-based payment expenses (note 27(e))	**3,828**	541
Salaries, wages and other benefits	**311,844**	284,959
	382,365	323,323

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs (continued)

(i) Defined contribution retirement plans

The PRC

As stipulated by the labour regulations of the PRC, the Group 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 2020.

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 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 approximately US$11,420,000 as at 31 December 2020 (31 December 2019: US$9,046,000), with actuarial loss of US$592,000 being recorded in other comprehensive income for the year ended 31 December 2020 (31 December 2019: US$786,000).

(c) Other operating costs

	2020	2019
	US$'000	US$'000
Legal and profession fee	**14,413**	5,289
Impairment loss of non-current assets	**1,949**	450
Donations	**1,953**	780
Redundancy cost	**1,029**	1,887
Others	**334**	132
	19,678	8,538

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

(d) Other items

	2020 US$'000	2019 US$'000
Amortisation of intangible assets* (note 11)	**12,000**	9,770
Depreciation charge* (note 10)		
– owned property, plant and equipment	**44,785**	40,978
– right-of-use assets	**12,320**	11,083
Less: Amounts capitalised as development costs	**(352)**	(654)
	56,753	51,407
Provision for/(reversal of) impairment of:		
– trade and other receivables	**841**	(61)
– property, plant and equipment	**114**	450
– intangible assets	**1,835**	–
	2,790	389
Research and development costs	**208,207**	170,660
Less: Amortisation of capitalised development costs	**(5,674)**	(4,035)
Costs capitalised into intangible assets	**(15,578)**	(18,960)
	186,955	147,665
Rental income from investment properties	**508**	235
Cost of inventories* (note 17(b))	**246,721**	244,389
Auditors' remuneration		
– audit services	**2,234**	2,178
– non-audit services	**417**	1,120
	2,651	3,298

* Cost of inventories includes US$83,776,000 (2019: US$98,792,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2020 **US$'000**	2019 US$'000
Current tax – PRC Corporate Income Tax ("CIT")		
Provision for the year	**9,104**	32,719
(Over)/under-provision in respect of prior years	**(524)**	579
	8,580	33,298
Current tax – other jurisdictions		
Provision for the year	**1,543**	2,580
Over-provision in respect of prior years	**(6)**	(65)
	1,537	2,515
	10,117	35,813
Deferred tax		
Origination and reversal of temporary differences (note 24(b))	**290**	(1,614)
	10,407	34,199

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"). According to Guoshuihan 2009 No. 203, if an entity is certified as an HNTE, it is entitled to a preferential income tax rate of 15% during the certified period.

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

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

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

	2020 US$'000	2019 US$'000
(Loss)/profit before taxation	**(212,941)**	63,208
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profit in the countries concerned	**(26,847)**	41,478
Effect of the PRC preferential tax rate	**(1,007)**	(17,348)
Effect of other non-deductible expenses	**3,599**	4,073
Effect of additional deduction on research and development expenses	**(9,195)**	(2,778)
Effect of tax losses not recognised	**51,604**	20,369
Effect of non-taxable income	**(1,257)**	(9,832)
Effect of utilisation of temporary differences not recognised in previous years	**–**	(3,366)
Withholding tax on profit distributions	**846**	287
(Over)/under-provision in respect of prior years	**(530)**	514
Others	**(6,806)**	802
Actual tax expenses	**10,407**	34,199

7 DIRECTORS' EMOLUMENTS

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

	2020					
	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment (Note) US$'000	Total US$'000
Executive director						
Zhaohua Chang	–	–	–	–	36,553	36,553
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hongliang Yu	–	–	–	–	–	–
Yasuhisa Kurogi (appointed on 18 June 2020)	–	–	–	–	–	–
Hiroshi Shirafuji (resigned on 18 June 2020)	–	–	–	–	–	–
Independent non-executive directors						
Jonathan Chou	–	38	–	–	91	129
Guoen Liu	36	8	–	–	–	44
Chunyang Shao	36	8	–	–	–	44
	72	54	–	–	36,644	36,770

7 DIRECTORS' EMOLUMENTS (CONTINUED)

	2019					
	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment (Note) US$'000	Total US$'000
Executive director						
Zhaohua Chang	–	96	–	–	3,530	3,626
Non-executive directors						
Norithiro Ashida	–	–	–	–	–	–
Hiroshi Shirafuji	–	–	–	–	–	–
Hongliang Yu	–	–	–	–	–	–
Independent non-executive directors						
Jonathan Chou	–	12	–	–	–	12
Guoen Liu	36	2	–	–	–	38
Chunyang Shao	36	2	–	–	–	38
	72	112	–	–	3,530	3,714

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

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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2019: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2019: four) individual are as follows:

	2020	2019
	US$'000	US$'000
Salaries and other benefits	**748**	1,010
Retirement scheme contributions	**40**	33
Discretionary bonuses	**–**	944
Equity-settled share-based payment	**1,827**	1,329
Cash-settled share-based payment	**468**	–
	3,083	3,316

The emoluments of the four (2019: four) individuals with the highest emoluments are within the following bands:

	2020 Number of Individuals	2019 Number of Individuals
HK$5,500,001 to HK$6,000,000	**2**	–
HK$6,000,001 to HK$7,000,000	**2**	4

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of US$191,252,000 (2019: profit of US$46,281,000) and the weighted average number of ordinary shares of 1,742,736,000 shares (2019: 1,583,651,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2020 **'000**	2019 '000
Issued ordinary shares at 1 January	**1,622,778**	1,602,326
Effect of issue of shares in lieu of cash dividends	**683**	1,473
Effect of issue of shares upon a placing (note 28(c))	**32,889**	–
Effect of share options exercised	**15,242**	1,516
Effect of treasury shares held	**(10,347)**	(24,651)
Effect of the conversion of the convertible bonds issued by the Company	**81,491**	2,987
Weighted average number of ordinary shares at 31 December	**1,742,736**	1,583,651

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of US$199,623,000 (2019: profit of US$33,245,000) and the weighted average number of ordinary shares of 1,796,441,000 shares (2019: 1,674,874,000 shares) after adjusting the effects of dilutive potential issuable ordinary shares under a put option granted to Sino Rhythm Limited ("SRL") that may be settled in ordinary shares of the Company, calculated as follows.

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

	2020 **US$'000**	2019 US$'000
(Loss)/profit attributable to ordinary equity shareholders	**(191,252)**	46,281
Effect of deemed exercise of put option granted to SRL in respect of share repurchase obligation (note 30(e))	**(8,371)**	(13,036)
(Loss)/profit attributable to ordinary equity shareholders (diluted)	**(199,623)**	33,245

9 (LOSS)/EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share (continued)

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

	2020 **'000**	2019 '000
Weighted average number of ordinary shares at 31 December	**1,742,736**	1,583,651
Effect of deemed exercise of put option granted to SRL in respect of share repurchase obligation	**53,705**	53,247
Effect of deemed issue of shares under the Company's share option scheme	**–**	37,976
Weighted average number of ordinary shares (diluted) at 31 December	**1,796,441**	1,674,874

The calculation of diluted loss per share amount for the year ended 31 December 2020 has not included the potential effects of the deemed issue of shares under the share option schemes (see note 27(a)), the deemed conversion of the convertible bonds (see note 26) and preferred shares issued by subsidiaries during 2020 (see note 20(ii)) into ordinary shares during the year, as they had anti-dilutive effects on the basic loss per share amount for the year.

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 (see note 26) and series C convertible preferred shares issued by a subsidiary during 2019 into ordinary shares during the year, as they had anti-dilutive effects on the basic earnings per share amount for the year.

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Ownership interests in land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Right-of-use assets US$'000	Construction in progress US$'000	Sub-total US$'000	Investment property US$'000	Total US$'000
Cost:										
At 1 January 2019	171,566	15,617	198,318	59,996	3,009	68,141	56,922	573,569	6,330	579,899
Exchange adjustments	(3,162)	(305)	(1,409)	(598)	(40)	(974)	(454)	(6,942)	(133)	(7,075)
Transfer	63,068	1,909	28,340	6,073	357	–	(100,098)	(351)	351	–
Additions	1,196	1,046	14,415	2,953	8	11,819	66,010	97,447	–	97,447
Disposals	(2,263)	(274)	(23,974)	(8,289)	(337)	(477)	(819)	(36,433)	–	(36,433)
Disposal of subsidiaries	(3,718)	(366)	(2,578)	(484)	(65)	–	–	(7,211)	–	(7,211)
At 31 December 2019 and 1 January 2020	**226,687**	**17,627**	**213,112**	**59,651**	**2,932**	**78,509**	**21,561**	**620,079**	**6,548**	**626,627**
Exchange adjustments	**14,281**	**1,604**	**12,495**	**3,597**	**275**	**5,684**	**1,931**	**39,867**	**237**	**40,104**
Transfer	**9,579**	**3,203**	**31,352**	**9,005**	**143**	**–**	**(55,751)**	**(2,469)**	**–**	**(2,469)**
Additions	**2,234**	**1,664**	**13,747**	**1,421**	**85**	**7,921**	**61,839**	**88,911**	**–**	**88,911**
Disposals	**(1,249)**	**–**	**(5,910)**	**(2,521)**	**(283)**	**(3,602)**	**(1,838)**	**(15,403)**	**–**	**(15,403)**
At 31 December 2020	**251,532**	**24,098**	**264,796**	**71,153**	**3,152**	**88,512**	**27,742**	**730,985**	**6,785**	**737,770**

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliation of carrying amount (continued)

	Ownership interests in land and buildings held for own use US$'000	Leasehold improvements US$'000	Equipment and machinery US$'000	Office equipment, furniture and fixtures US$'000	Motor vehicles US$'000	Right-of-use assets US$'000	Construction in progress US$'000	Sub-total US$'000	Investment properties US$'000	Total US$'000
Accumulated depreciation, amortisation and impairment:										
At 1 January 2019	21,784	9,139	99,413	36,682	2,147	4,619	–	173,784	879	174,663
Exchange adjustments	(112)	(142)	(206)	(197)	(32)	(96)	–	(785)	(43)	(828)
Transfer	(317)	–	–	–	–	–	–	(317)	317	–
Charge for the year	6,787	1,815	23,464	8,873	316	11,083	–	52,338	173	52,511
Written back on disposals	(815)	(101)	(22,663)	(7,954)	(290)	(94)	–	(31,917)	–	(31,917)
Written back on disposal of subsidiaries	(634)	(235)	(632)	(247)	(62)	–	–	(1,810)	–	(1,810)
At 31 December 2019 and 1 January 2020	26,693	10,476	99,376	37,157	2,079	15,512	–	191,293	1,326	192,619
Exchange adjustments	**1,951**	**700**	**4,968**	**1,783**	**153**	**1,821**	**-**	**11,376**	**13**	**11,389**
Charge for the year	**8,707**	**2,195**	**25,127**	**8,432**	**276**	**12,320**	**-**	**57,057**	**162**	**57,219**
Written back on disposals	**(387)**	**-**	**(4,216)**	**(2,363)**	**(267)**	**(2,711)**	**-**	**(9,944)**	**-**	**(9,944)**
At 31 December 2020	**36,964**	**13,371**	**125,255**	**45,009**	**2,241**	**26,942**	**-**	**249,782**	**1,501**	**251,283**
Net book value:										
At 31 December 2020	**214,568**	**10,727**	**139,541**	**26,144**	**911**	**61,570**	**27,742**	**481,203**	**5,284**	**486,487**
At 31 December 2019	**199,994**	**7,151**	**113,736**	**22,494**	**853**	**62,997**	**21,561**	**428,786**	**5,222**	**434,008**

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 December 2020 US$'000	31 December 2019 US$'000
Land use rights, carried at depreciated cost	(i)	**14,833**	14,241
Properties leased for own use and others, carried at depreciated cost	(ii)	**46,737**	48,756
		61,570	62,997

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 US$'000	2019 US$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	**354**	355
Properties leased for own use and others	**11,966**	10,728
	12,320	11,083
Interest on lease liabilities (note 5(a))	**2,455**	2,469
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019, and leases of low-value assets	**419**	9,167

During the year, the Group entered into a number of lease agreements for use of property and machinery, and therefore recognised the additions to right-of-use assets of US$7,921,000 (2019: US$11,720,000).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(c) and 30(b), respectively.

(i) Land use rights

The Group has obtained land use rights in the PRC where certain manufacturing facilities are located. The land use rights are typically granted for 30 to 50 years, on the expiry of which the land reverts back to the PRC state. The payment for leasing the land is normally made in full at the start of the land use rights period.

(ii) Properties leased for own use

The Group has obtained the right to use other properties as its manufacturing facilities, warehouses and office buildings through tenancy agreements. The leases typically run for an initial period of 1 to 10 years. None of the leases includes variable lease payments.

11 INTANGIBLE ASSETS

	Technologies US$'000	Products licences US$'000	Capitalised development costs US$'000	Customer contracts and related customer relationship US$'000	Trademark and others US$'000	Total US$'000
Cost:						
At 1 January 2019	22,528	11,640	92,139	21,352	4,483	152,142
Exchange adjustments	(131)	(174)	(687)	(323)	(100)	(1,415)
Additions	–	–	18,960	–	5,032	23,992
Disposal of subsidiaries	–	–	(6,847)	–	–	(6,847)
At 31 December 2019 and 1 January 2020	22,397	11,466	103,565	21,029	9,415	167,872
Exchange adjustments	855	597	8,084	1,506	418	11,460
Additions	–	(759)	15,578	–	70	14,889
Transfer	–	2,469	–	–	–	2,469
At 31 December 2020	23,252	13,773	127,227	22,535	9,903	196,690
Accumulated amortisation and impairment:						
At 1 January 2019	7,553	7,216	10,682	8,220	982	34,653
Exchange adjustments	37	(171)	(198)	(62)	(33)	(427)
Charge for the year	2,223	956	4,035	2,282	274	9,770
Disposal of subsidiaries	–	–	(1,935)	–	–	(1,935)
At 31 December 2019 and 1 January 2020	9,813	8,001	12,584	10,440	1,223	42,061
Exchange adjustments	140	624	1,162	378	93	2,397
Charge for the year	2,391	2,267	5,674	2,100	1,403	13,835
At 31 December 2020	12,344	10,892	19,420	12,918	2,719	58,293
Net book value:						
At 31 December 2020	10,908	2,881	107,807	9,617	7,184	138,397
At 31 December 2019	12,584	3,465	90,981	10,589	8,192	125,811

11 INTANGIBLE ASSETS (CONTINUED)

Capitalised development costs primarily related to cardiovascular devices, endovascular and peripheral vascular devices, neurovascular devices and heart valve business segments. Of which, US$51,718,000 (2019: US$49,095,000) are not yet available for use as at 31 December 2020.

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

	2020 US$'000	2019 US$'000
Cost of sales	**1,000**	366
Research and development costs	**6,265**	4,766
Distribution costs	**1,362**	1,181
Administrative expenses	**3,373**	3,457
	12,000	9,770

12 GOODWILL

	US$'000
Cost:	
At 1 January 2019	188,242
Exchange adjustments	(2,566)
At 31 December 2019 and 1 January 2020	185,676
Additions through acquisition	226
Exchange adjustments	(1,426)
At 31 December 2020	184,476
Accumulated impairment losses:	
At 1 January 2019	25,569
Exchange adjustments	(413)
At 31 December 2019 and 1 January 2020	25,156
Exchange adjustments	(163)
At 31 December 2020	24,993
Carrying amount:	
At 31 December 2020	159,483
At 31 December 2019	160,520

12 GOODWILL (CONTINUED)

Impairment tests for cash-generating units containing goodwill

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

	2020	2019
	US$'000	US$'000
OrthoRecon business	**54,458**	54,458
Overseas CRM business	**96,325**	98,136
The PRC CRM business	**8,474**	7,926
Surgical robot business	**226**	–
	159,483	160,520

The recoverable amounts of the CGUs are higher of the fair value less costs of disposals and the value in use. The key assumptions used for the calculation of the recoverable amounts of the CGUs were as follows:

The key assumptions for the value-in-use calculation are as follows, which are based on either the past experience or external sources of information:

	At 31 December 2020		
	OrthoRecon business	**CRM business – overseas**	**CRM business – the PRC**
Compound revenue growth rate during the budget period	**6%**	**5%**	**40%**
Gross profit ratio	**65%-73%**	**58%-64%**	**29%-51%**
Steady growth rate used in the extrapolation after budget period	**3%**	**2%**	**3%**
Pre-tax discount rate	**13%**	**17%**	**15%**

	At 31 December 2019		
	OrthoRecon business	CRM business – overseas	CRM business – the PRC
Compound revenue growth rate during the budget period	6%	8%	49%
Gross profit ratio	68% – 73%	58% – 64%	25% – 52%
Steady growth rate used in the extrapolation after budget period	3%	2%	3%
Pre-tax discount rate	15%	10%	16%

The recoverable amount of the CGU of OrthoRecon Business, overseas CRM business and the PRC CRM business is estimated to exceed the carrying amount of the CGU at 31 December 2020 by US$51,605,000, US$20,252,000 and US$36,305,000, respectively.

(Expressed in United States dollars unless otherwise indicated)

12 GOODWILL (CONTINUED)

Impairment tests for cash-generating units containing goodwill (continued)

The recoverable amount of each CGU would equal its carrying amount if there were following changes in key assumptions:

	At 31 December 2020		
	OrthoRecon business	CRM business – overseas	CRM business – the PRC
Compound revenue growth rate during the budget period	5.3%	5.3%	39.4%
Gross profit ratio	63.6%-70.6%	57.8%-63.5%	25.3%-48.4%
Increase in pre-tax discount rate	2.0%	1.6%	4.6%

	At 31 December 2019		
	OrthoRecon business	CRM business – overseas	CRM business – the PRC
Compound revenue growth rate during the budget period	5.4%	8.2%	37.2%
Gross profit ratio	66.9% – 71.9%	57.8% – 63.8%	23.9% – 50.9%
Increase in pre-tax discount rate	2.5%	0.4%	1.4%

13 INVESTMENTS IN SUBSIDIARIES

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

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest As at 31 December 2020	Proportion of ownership interest As at 31 December 2019	Principal activity
Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械(集團)有限公司) (i)	The PRC	US$350,000,000	100%	100%	Manufacturing, distribution, research and development of medical devices
Suzhou MicroPort Orthopedics Scientific (Group) Co., Ltd. ("Suzhou MP Orthopedics") (蘇州微創骨科學(集團)有限公司) (iii)	The PRC	US$375,735,736	85.17%	100%	Manufacturing, distribution, research and development of orthopedics devices
Suzhou MicroPort OrthoRecon Co., Ltd. (蘇州微創關節醫療科技有限公司) (ii)	The PRC	RMB20,000,000	85.17%	100%	Manufacturing, distribution, research and development of orthopedics devices
Shanghai MicroPort Orthopedics Co., Ltd. (上海微創骨科醫療科技有限公司) (ii)	The PRC	RMB2,715,000,000	85.17%	100%	Manufacturing, distribution, research and development of orthopedics devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and business	Issued/ registered capital	Proportion of ownership interest As at 31 December 2020	Proportion of ownership interest As at 31 December 2019	Principal activity
MicroPort Orthopedic Instruments Suzhou Co., Ltd. (蘇州微創骨科醫療工具有限公司) (ii)	The PRC	RMB20,000,000	85.17%	100%	Manufacturing, distribution, research and development of orthopedics devices
MP Endo (上海微創心脈醫療科技股份有限公司) (iii)&(iv)	The PRC	RMB71,978,147	46.34%	46.34%	Manufacturing, distribution, research and development of endovascular devices
MicroPort NeuroTech (Shanghai) Co., Ltd. ("MP Neuro") (微創神通醫療科技(上海)有限公司) (iii)	The PRC	RMB63,531,250	69.89%	83.00%	Manufacturing, distribution, research and development of medical devices
Shanghai MicroPort CardioFlow Medtech Co., Ltd. (上海微創心通醫療科技有限公司) (i)	The PRC	RMB840,000,000	50.06%	64.72%	Manufacturing, distribution, research and development of heart valve devices
Shanghai MicroPort MedBot (Group) Co., Ltd. ("MP MedBot") (上海微創醫療機器人(集團)股份有限公司)(ii)	The PRC	RMB900,000,000	53.75%	78.14%	Manufacturing, research and development of surgical robot devices
Dongguan Kewei Medical Instrument Co., Ltd. (東莞科威醫療器械有限公司) (ii)	The PRC	RMB73,125,000	61.54%	61.54%	Manufacturing, distribution, research and development of surgical devices
MicroPort Urocare (Jiaxing) Co., Ltd. ("Jiaxing Urocare ") (微創優通醫療科技(嘉興)有限公司) (iii)	The PRC	RMB32,500,000	60%	60%	Research and development of medical devices
MicroPort Medical (Jiaxing) Co., Ltd. (嘉興微創醫療科技有限公司) (i)	The PRC	RMB250,000,000	100%	100%	Research and development of medical devices
AccuPath Medical (Jiaxing) Co., Ltd. ("AccuPath") (脈通醫療科技(嘉興)有限公司) (i)	The PRC	RMB50,000,000	100%	100%	Manufacturing, distribution, research and development of medical devices

(Expressed in United States dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

			Proportion of ownership interest		
Name of company	**Place of incorporation and business**	**Issued/ registered capital**	**As at 31 December 2020**	**As at 31 December 2019**	**Principal activity**
MicroPort Scientific S.R.L	Italy	EUR2,000,000	85.17%	100%	Distribution of medical devices
MicroPort Orthopedics Japan K.K.	Japan	JPY100,000,000	85.17%	100%	Distribution of medical devices
MicroPort Scientific Ltd.	United Kingdom	GBP1	85.17%	100%	Distribution of medical devices
Sorin CRM SAS	France	EUR104,825,140	75.46%	75.00%	Manufacturing of cardiac rhythm management devices
Sorin Group DR, S.R.L	Dominican Republic	US$26,502,400	75.46%	75.00%	Manufacturing of cardiac rhythm management devices
MicroPort CRM S.R.L	Italy	EUR3,932,700	75.46%	75.00%	Manufacturing, distribution, research and development of cardiac rhythm management devices

Notes:

(i) These subsidiaries are wholly foreign-owned enterprises.

(ii) These subsidiaries are domestic enterprises.

(iii) These subsidiaries are sino-foreign equity joint venture enterprises. These entities are accounted for as the Group's subsidiaries as they are controlled by the Group.

(iv) Management believe the Group retains control over MP Endo even though it holds less than half of the voting rights of MP Endo. In making this judgement, the Group has taken into account that 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.

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The following table lists out the information relating to Group's subsidiaries that have material non-controlling interests ("NCI") as at 31 December 2020. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2020			
	MP Endo US$'000	MP MedBot US$'000	Other individually immaterial subsidiaries US$'000	Total US$'000
NCI percentage	53.66%	46.25%		
Current assets	183,407	234,847		
Non-current assets	30,441	27,376		
Current liabilities	(18,281)	(34,491)		
Non-current liabilities	(6,582)	(4,072)		
Net assets	188,985	223,660		
Carrying amount of NCI	101,409	103,443	55,131	259,983
Revenue	68,487	–		
Profit/(loss) for the year	30,766	(25,328)		
Total comprehensive income	42,835	(19,804)		
Profit/(loss) allocated to NCI	16,509	(8,419)	(40,186)	(32,096)
Dividend paid to NCI	(3,546)	–	–	(3,546)
Cash flows from operating activities	31,284	(16,683)		
Cash flows from investing activities	(208)	(17,010)		
Cash flows from financing activities	(7,511)	242,980		

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

	2019			
	MP Endo US$'000	MP MedBot US$'000	Other individually immaterial subsidiaries US$'000	Total US$'000
NCI percentage	53.66%	21.86%		
Current assets	141,961	9,431		
Non-current assets	26,623	3,595		
Current liabilities	(11,256)	(2,157)		
Non-current liabilities	(4,598)	(849)		
Net assets	152,730	10,020		
Carrying amount of NCI	81,955	2,190	50,796	134,941
Revenue	48,527	–		
Profit/(loss) for the year	20,465	(6,665)		
Total comprehensive income	18,313	(6,807)		
Profit/(loss) allocated to NCI	8,785	(933)	(25,124)	(17,272)
Dividend paid to NCI	(1,277)	–	–	(1,277)
Cash flows from operating activities	20,277	(6,963)		
Cash flows from investing activities	(1,605)	3,843		
Cash flows from financing activities	103,064	10,315		

14 EQUITY-ACCOUNTED INVESTEES

	2020 US$'000	2019 US$'000
Investment in equity-accounted investees	**75,870**	47,518
Warrants issued by an equity-accounted investee	**1,920**	–
Amounts due from equity-accounted investees	**9,273**	6,665
	87,063	54,183

The following list contains only the particulars of material equity-accounted investees, which are unlisted corporate entities that did not have quoted market price:

				Proportion of ownership interest			
Name of equity-accounted investee	**Form of business structure**	**Place of incorporation**	**Particulars of issued and paid up capital**	**Goup's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal Activity**
Shanghai MicroPort EP MedTech Co., Ltd. ("MP EP")	Incorporated	The PRC	RMB400 million	42.2%	–	42.2%	Manufacturing, distribution, research and development of electrophysiology devices
Shanghai Horizon Medical Science Co., Ltd. ("Horizon")	Incorporated	The PRC	RMB3,027,467	41.3%	–	41.3%	Manufacturing, distribution, research and development of assisted reproduction devices
Robocath SAS ("Robocath")	Incorporated	France	EUR254,560	16.1%	–	16.1%	Manufacturing, distribution, research and development of surgical robot devices

14 EQUITY-ACCOUNTED INVESTEES (CONTINUED)

Summarised financial information of the material equity-accounted investees, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	MP EP		Horizon	Robocath
	2020 US$'000	2019 US$'000	**2020 US$'000**	**2020 US$'000**
Gross amount				
Current assets	**78,170**	23,348	**21,310**	**30,883**
Non-current assets	**29,474**	31,804	**1,032**	**16,794**
Current liabilities	**(141,561)**	(80,872)	**(164)**	**(3,134)**
Non-current liabilities	**(2,853)**	(2,835)	**–**	**(12,620)**
Equity	**(36,770)**	(28,555)	**22,178**	**31,923**
Revenue	**20,481**	13,540	**139**	**588**
Loss for the year	**(7,376)**	(6,562)	**(1,283)**	**(2,062)**
Other comprehensive income	**–**	–	**–**	**1,863**
Total comprehensive income	**(7,376)**	(6,562)	**(1,283)**	**(199)**
Reconciled to the Group's interest in equity-accounted investees				
Gross amounts of net (liabilities)/assets of equity-accounted investees	**(36,770)**	(28,555)	**22,178**	**31,923**
Group's effective interest	**42.2%**	45.1%	**41.3%**	**16.1%**
Group's share of net (liabilities)/assets of equity-accounted investees	**(15,517)**	(12,878)	**9,161**	**5,136**
Goodwill	**46,089**	46,070	**2,386**	**7,703**
Dilution effect of share-based payments arrangement of an equity-accounted investee	**(729)**	(73)	**–**	**–**
Carrying amount in the consolidated financial statements	**29,843**	33,119	**11,547**	**14,759**

14 EQUITY-ACCOUNTED INVESTEES (CONTINUED)

Aggregate information of equity-accounted investees that are not individually material:

	2020 **US$'000**	2019 US$'000
Aggregate carrying amount of individually immaterial investment in equity-accounted investees	**19,721**	14,399
Aggregate amounts of the Group's share of those equity-accounted investees		
Loss for the year	**(2,901)**	(2,697)
Other comprehensive income	**398**	(88)
Total comprehensive income	**(2,503)**	(2,785)

All of the Group's investments in equity-accounted investees are accounted for using the equity method in the consolidated financial statements.

15 OTHER NON-CURRENT FINANCIAL ASSETS

	2020 **US$'000**	2019 US$'000
Financial assets measured at FVPL		
– Unlisted equity securities outside Hong Kong	**19,605**	20,125

16 OTHER NON-CURRENT ASSETS

	2020 US$'000	2019 US$'000
Security deposits (i)	**19,902**	17,755
Loan to a related party (ii)	**26,700**	–
Income tax recoverable (note 24(a))	**15,952**	13,095
Value-added tax recoverable	**7,005**	7,699
Others	**5,450**	3,079
	75,009	41,628

Note:

(i) In order to secure future leasing of certain buildings from Shanghai Weichuang Investment Management Co., Ltd. ("Shanghai Weichuang Investment"), the Group entered into an agreement (the "Lease Security Agreement") with Shanghai Weichuang Investment in December 2017.

Pursuant to the Lease Security Agreement, Shanghai Weichuang Investment agreed to lease out certain buildings for five years starting from 2020 (the "Lease") when it has completed the constructions of those buildings. The annual rental charges for those buildings are preliminarily agreed as RMB56.4 million, subject to further adjustment based on the prevailing property market condition when the Lease commences in 2020. Both parties also agree to enter into a lease agreement (the "Future Lease Agreement") setting out the final annual rental charges, guarantee deposit amount and lease period prior to the commencement of the Lease. To secure the Lease, the Group paid security deposits totalling RMB112.8 million (the "Security Deposit"), representing two years' lease rental, to Shanghai Weichuang Investment in 2018. Pursuant to the Lease Security Agreement, the payment of the guarantee deposits and final annual rental charges, those amounts of which are yet to be agreed in the Future Lease Agreement, could be firstly deducted from the Security Deposit. The Group is liable for a compensation in the amount of 20% of the Security Deposit if the Group cancels the Lease without obtaining consent from Shanghai Weichuang Investment. The Group is entitled to a fee (the "Fee Income") from Shanghai Weichuang Investment during the period from the payment date of the Security Deposit through the commencement of the Lease. The Fee Income is calculated as the amount of Security Deposits multiplied by bank borrowing rate floated upward 10% in that period and could be used to offset the Group's payment obligation of final annual rental charges under the Lease. Due to the COVID-19 pandemic, as at 31 December 2020, the construction of the buildings has been delayed and the Lease was expected to commence in 2021.

(ii) In May 2020 and July 2020, MicroPort (Shanghai) MedTech Investment Co., Ltd. ("MP Investment", a wholly-owned subsidiary of the Group) agreed to provide 5-year secured term loan with a principal amount of RMB55.2 million and RMB115 million to Shanghai Hopeway Biotechnology Co., Ltd. ("Hopeway Biotech") in connection with Hopeway Biotech's investments in Suzhou MP Orthopedics (note 29(b)) and MP Neuro, respectively, which are the Group's subsidiaries. Loans to Hopeway Biotech disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Name of borrower	Hopeway Biotech
Relationship with the Company	Wholly-owned by Dr. Zhaohua Chang, chairman and an executive director of the Company
Terms of the loans	
– duration and repayment terms	Repayable in May 2025 and July 2025
– loan amount	RMB170,207,000
– interest rate	5% p.a., payable at maturity
– security	Hopeway Biotech pledged its equity interest in Suzhou MP Orthopedics and MP Neuro as security*
Balance of the loans at 31 December 2020	
– at 1 January 2020	Nil
– at 31 December 2020	RMB174,213,000 (equivalent to US$26,700,000)
Maximum balance outstanding	
– during the 2020	RMB174,213,000 (equivalent to US$26,700,000)

There was no amount due but unpaid, nor any loss allowance made against the principal amount of or interest on the above loans at 31 December 2020.

* The Group does not have the right to sell or repledge the collateral in the absence of default by Hopeway Biotech. The Group considers that the credit risk arising from these loans is significantly mitigated by the collateral, with reference to the estimated fair value of the underlying assets.

17 INVENTORIES

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

	2020 **US$'000**	2019 US$'000
Raw materials	**54,604**	36,986
Work in progress	**48,551**	41,803
Finished goods	**137,032**	113,532
	240,187	192,321

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

	2020 **US$'000**	2019 US$'000
Carrying amount of inventories sold	**221,873**	227,045
Increase of inventory provision	**1,928**	2,374
Cost of inventories sold	**223,801**	229,419
Cost of inventories directly recognised as research and development costs and distribution costs	**22,920**	14,970
	246,721	244,389

18 TRADE AND OTHER RECEIVABLES

	31 December 2020 US$'000	31 December 2019 US$'000
Trade debtors and bills receivable due from:		
– third party customers	**168,068**	216,489
– related parties	**2,448**	3,849
	170,516	220,338
Less: Allowance for doubtful debts (note 30(a))	**(9,699)**	(9,680)
	160,817	210,658
Other debtors	**31,939**	31,013
Income tax recoverable (note 24(a))	**8,373**	3,765
Deposits and prepayments	**35,847**	21,353
	236,976	266,789

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:

	2020 US$'000	2019 US$'000
Within 1 month	**59,803**	98,515
1 to 3 months	**72,606**	82,625
3 to 12 months	**26,212**	23,419
More than 12 months	**2,196**	6,099
	160,817	210,658

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

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand. As at 31 December 2020, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to US$417,102,000 (2019: US$243,041,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2020, the balance of the deposits in the designated bank accounts of MP Endo is US$84,974,000 (2019: US$105,992,000) which is not available for general usage and could only be used for purposes specified in the Initial Public Offering prospectus of MP Endo.

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

	Note	**2020 US$'000**	2019 US$'000
(Loss)/profit before taxation		**(212,941)**	63,208
Adjustments for:			
Amortisation of right-of-use assets	*5(d)*	**12,320**	11,083
Amortisation of intangible assets	*5(d)*	**12,000**	9,770
Depreciation	*5(d)*	**44,433**	40,324
Impairment loss on intangible assets	*5(d)*	**1,835**	–
Impairment loss on property, plant and equipment	*5(d)*	**114**	450
Finance costs	*5(a)*	**37,727**	19,565
Gain on modification of the convertible bonds		**–**	(1,012)
Interest income on bank deposits and structured deposits	*4*	**(4,777)**	(2,674)
Interest income on financial assets carried at amortised cost	*4*	**(1,488)**	–
Gain on disposal of subsidiaries		**–**	(63,105)
Changes in fair value of financial instruments carried at FVPL	*4*	**13,246**	2,005
Net loss/(gain) on disposal of property, plant and equipment	*4*	**570**	(594)
Refund from an arbitration in relation to an acquisition in previous year	*4*	**(16,420)**	–
Gain on disposal of interests in equity-accounted investees		**(1,062)**	–
Share of losses of equity-accounted investees		**6,730**	5,656
Equity-settled share-based payment expenses	*5(b)*	**55,665**	18,526
Changes in working capital:			
Increase in inventories		**(47,866)**	(24,073)
Decrease/(increase) in trade and other receivables		**35,819**	(44,454)
Increase in trade and other payables		**2,645**	21,693
Increase/(decrease) in contract liabilities		**54,226**	(8,602)
(Decrease)/increase in deferred income		**(2,005)**	2,886
Cash (used in)/generated from operations		**(9,229)**	50,652

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings (note 22) US$'000	Convertible notes (note 26) US$'000	Preferred shares issued by subsidiaries (note 20) US$'000	Lease liabilities (note 23) US$'000	Interest rate swaps held to hedge borrowings liabilities (note 30(e)(i)) US$'000	Total US$'000
At 1 January 2020	320,199	83,107	46,099	54,705	–	504,110
Changes from financing cash flows:						
Proceeds from interest-bearing borrowings, net of transaction costs	149,271	–	–	–	–	149,271
Proceeds from issuance of convertible bonds by a subsidiary	–	50,000	–	–	–	50,000
Repayments of interest-bearing borrowings	(284,267)	–	–	–	–	(284,267)
Interest paid for interest-bearing borrowings	(10,804)	–	–	–	–	(10,804)
Proceeds from preferred shares issued by subsidiaries	–	–	175,000	–	–	175,000
Proceeds from disposal of interests in a subsidiary without losing control	–	–	30,000	–	–	30,000
Capital element of lease rentals paid	–	–	–	(10,232)	–	(10,232)
Interest element of lease rentals paid	–	–	–	(2,671)	–	(2,671)
Total changes from financing cash flows	(145,800)	50,000	205,000	(12,903)	–	96,297

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings (note 22) US$'000	Convertible notes (note 26) US$'000	Preferred shares issued by subsidiaries (note 20) US$'000	Lease liabilities (note 23) US$'000	Interest rate swaps held to hedge borrowings liabilities (note 30(e)(i)) US$'000	Total US$'000
Exchange adjustments	8,360	–	–	5,614	–	13,974
Changes in fair value	–	–	–	–	410	410
Other changes:						
Interest charge (note 5(a))	10,120	439	24,303	2,455	–	37,317
Transaction cost unpaid	–	–	(1,000)	–	–	(1,000)
Increase in lease liabilities from entering into new leases during the year	–	–	–	5,368	–	5,368
Modification and termination of lease terms	–	–	–	(391)	–	(391)
Initial recognition of equity components of financial instruments	–	(1,763)	(13,570)	–	–	(15,333)
Re-designation and reclassification of preferred shares issued by a subsidiary	–	–	4,105	–	–	4,105
Conversion of the convertible bonds (note 26)	–	(83,200)	–	–	–	(83,200)
Total other changes	10,120	(84,524)	13,838	7,432	–	(53,134)
At 31 December 2020	192,879	48,583	264,937	54,848	410	561,657

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings (note 22) US$'000	Convertible notes (note 26) US$'000	Series C preferred shares issued by a subsidiary (note 20) US$'000	Lease liabilities (note 23) US$'000	Total US$'000
At 31 December 2018	238,730	90,405	–	–	329,135
Impact on initial application of HKFRS 16	–	–	–	49,237	49,237
At 1 January 2019	238,730	90,405	–	49,237	378,372
Changes from financing cash flows:					
Proceeds from interest-bearing borrowings, net of transaction costs	161,971	–	–	–	161,971
Repayments of interest-bearing borrowings	(76,624)	–	–	–	(76,624)
Interest paid for interest-bearing borrowings	(13,533)	–	–	–	(13,533)
Interest paid for the convertible bonds	–	(3,219)	–	–	(3,219)
Proceeds from issuance of preferred shares	–	–	45,000	–	45,000
Capital element of lease rentals paid	–	–	–	(8,479)	(8,479)
Interest element of lease rentals paid	–	–	–	(2,469)	(2,469)
Total changes from financing cash flows	71,814	(3,219)	45,000	(10,948)	102,647
Exchange adjustments	(650)	–	–	(137)	(787)
Other changes:					
Interest charge (note 5(a))	13,487	2,902	1,099	2,469	19,957
Disposal of subsidiaries	(3,182)	–	–	–	(3,182)
Increase in lease liabilities from entering into new leases during the year	–	–	–	14,084	14,084
Effect of amendments to the convertible bonds	–	(1,012)	–	–	(1,012)
Conversion of the convertible bonds	–	(5,969)	–	–	(5,969)
Total other changes	10,305	(4,079)	1,099	16,553	23,878
At 31 December 2019	320,199	83,107	46,099	54,705	504,110

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 US$'000	2019 US$'000
Within operating cash flows	**399**	492
Within financing cash flows	**12,903**	10,948
	13,302	11,440

20 TRADE AND OTHER PAYABLES

	31 December 2020 US$'000	31 December 2019 US$'000
Current		
Trade payables due to:		
– third party suppliers	**60,363**	90,120
– a related party	**25**	–
Total trade payables (i)	**60,388**	90,120
Dividends payable to ordinary shareholders	**95**	83
Share repurchase obligations (ii)	**195,875**	46,099
Other payables and accrued charges	**116,114**	147,478
	372,472	283,780
Non-current		
Share repurchase obligations (ii)	**167,082**	89,701
Defined benefit retirement obligation (note 5(b)(ii))	**11,420**	9,046
Other payables (iii)	**24,521**	18,042
	203,023	116,789

20 TRADE AND OTHER PAYABLES (CONTINUED)

Note:

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

	2020 US$'000	2019 US$'000
Within 1 month	**41,340**	52,173
Over 1 month but within 3 months	**9,613**	15,495
Over 3 months but within 6 months	**1,730**	1,921
Over 6 months but within 1 year	**1,237**	2,862
Over 1 year	**6,468**	17,669
	60,388	90,120

(ii) During the year ended 31 December 2020, MicroPort CardioFlow Medtech Corporation ("MP CardioFlow Cayman") completed the series D financing (note 29(a)) and MicroPort Cardiac Rhythm Management Limited ("CRM Cayman ") completed the series B financing.

As at 31 December 2020, MP CardioFlow Cayman had issued 24,212,383 voting redeemable series B preferred shares (the "CardioFlow Series B Preferred Shares"), 11,250,000 voting redeemable series C preferred shares (the "CardioFlow Series C Preferred Shares") and 11,670,455 voting redeemable series D preferred shares (the "CardioFlow Series D Preferred Shares") to several investors, respectively, and CRM Cayman issued 28,252,054 voting redeemable series B preferred shares (the "CRM Series B Preferred Shares") to certain third party investors.

Movements of the share repurchase obligations arising from these preferred shares are as follows:

	CardioFlow Series B Preferred Shares US$'000	**CardioFlow Series C Preferred Shares US$'000**	**CardioFlow Series D Preferred Shares US$'000**	**CRM Series B Preferred Shares US$'000**	**Total US$'000**
As at 1 January 2020	89,701	46,099	–	–	135,800
Issuance during the year, net of transaction costs	–	–	129,000	65,535	194,535
Charge to equity	8,319	–	–	–	8,319
Charge to finance costs (note 5(a))	–	6,935	13,841	3,527	24,303
As at 31 December 2020	98,020	53,034	142,841	69,062	362,957
Representing					
Current portion	–	53,034	142,841	–	195,875
Non-current portion	98,020	–	–	69,062	167,082
	98,020	53,034	142,841	69,062	362,957

As at 31 December 2020, CardioFlow Series C Preferred Shares and CardioFlow Series D Preferred Shares were classified as current liabilities as the Group did not have unconditional right to defer redemption of these preferred shares for at least twelve months after 31 December 2020 and CardioFlow Series B Preferred Shares and CRM Series B Preferred Shares were classified as non-current liabilities because the Group did not have any obligation to redeem these preferred shares within twelve months after the reporting period.

(iii) The Group provided a financial guarantee to Oxford Finance LLC in respect of the senior debts of an entity the Group invested in but disposed during the year ended 31 December 2020. As at 31 December 2020, the Company made a further provision of the financial guarantee considering the risk that the entity may default on the senior debts has been heightened (2019: US$4,201,000).

21 CONTRACT LIABILITIES

	31 December 2020 US$'000	31 December 2019 US$'000
Current		
Unfulfilled performance obligations (Note)	10,777	7,753
Unsettled sales rebates	49,427	–
Advanced receipts from customers for sales of medical devices	1,804	1,769
	62,008	9,522
Non-current		
Unfulfilled performance obligations (Note)	29,855	21,344
Others	–	119
	29,855	21,463

Note: The Group provided non-contractual post-implant services for its CRM devices sold, which represents a future performance obligation. The Group recognised contract liabilities in respect of the unfulfilled performance obligation when the Group has an obligation to provide the post-implant services and payments from customers are received in advance of the services being rendered.

Movements in contract liabilities

	2020 US$'000	2019 US$'000
Balance at 1 January	30,985	37,826
Exchange adjustments	6,652	(108)
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities as at 1 January	(14,463)	(15,889)
Increase in contract liabilities as a result of receiving advance payments during the year	19,193	7,395
Increase in contract liabilities as a result of adjusting sales rebates	49,427	–
Increase in contract liabilities as a result of accruing interest expense on advances	69	1,761
Balance at 31 December	91,863	30,985

22 INTEREST-BEARING BORROWINGS

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

	2020 US$'000	2019 US$'000
Within 1 year or on demand	**10,891**	32,092
After 1 year but within 2 years	**73,526**	57,606
After 2 years but within 5 years	**75,092**	230,501
After 5 years	**33,370**	–
	181,988	288,107
	192,879	320,199

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

	2020 US$'000	2019 US$'000
Bank loans		
– secured	**98,982**	127,602
– unsecured	**93,897**	192,597
	192,879	320,199

At 31 December 2020, the bank facilities drawn down by the Group of US$98,982,000 (2019: US$43,753,000) were secured by right-of-use assets and buildings held for own use with net book value of US$4,187,000 and US$50,239,000, respectively (2019: pledged deposits of US$1,147,000, right-of-use assets of US$4,010,000 and buildings held for own use of US$51,090,000, respectively).

In July 2020, a bank loan of the Company amounting to US$83,849,000 borrowed in connection with the acquisition of CRM business was repaid in advance.

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. Further details of the Group's management of liquidity risk are set out in note 30(b). As at 31 December 2020 and 2019, none of the covenants relating to drawn down facilities had been breached.

23 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	2020 US$'000	2019 US$'000
Within 1 year	**12,074**	10,178
After 1 year but within 2 years	**11,568**	9,045
After 2 years but within 5 years	**22,475**	23,165
After 5 years	**8,731**	12,317
	42,774	44,527
	54,848	54,705

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2020 US$'000	2019 US$'000
Provision for the year		
– charge to profit or loss (note 6(a))	**10,647**	35,299
– charge to equity (notes 29(a)&(c))	**55,449**	–
Provisional tax paid	**(16,969)**	(23,741)
Exchange adjustments	**2,818**	(190)
	51,945	11,368
Balance of profits tax provision relating to prior years	**(23,588)**	(15,106)
	28,357	(3,738)

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

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

	2020 US$'000	2019 US$'000
Represented by:		
Current income tax recoverable	**(8,373)**	(3,765)
Non-current income tax recoverable	**(15,952)**	(13,095)
Income tax payable	**52,682**	13,122
	28,357	(3,738)

Income tax recoverable primarily represents to a tax credit of US$18,519,000 (2019: US$16,695,000) from French government, which is an incentive tax programme to support the research and development projects of a subsidiary in France ("France CIR"). The French CIR is deductible from the following 3 years' income tax or is receivable from the France government after 3 years if there is no sufficient profits available to deduct such research and development costs. As at 31 December 2020, the France CIR are classified as current and non-current receivables amounting US$4,920,000 and US$13,599,000 (2019: US$3,600,000 and US$13,095,000), respectively.

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

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

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

	Accrued expense US$'000	Withholding tax on retained profits of PRC subsidiaries US$'000	Fair value adjustments in respect of net assets acquired in business combinations US$'000	Unused tax losses and others US$'000	Total US$'000
Deferred tax arising from:					
At 1 January 2019	(6,893)	2,306	3,268	(6,197)	(7,516)
Exchange adjustments	168	(254)	(126)	(229)	(441)
(Credited)/charged to profit or loss (note 6(a))	(209)	82	(597)	(890)	(1,614)
At 31 December 2019 and 1 January 2020	(6,934)	2,134	2,545	(7,316)	(9,571)
Exchange adjustments	(1,597)	75	250	(827)	(2,099)
(Credited)/charged to profit or loss (note 6(a))	(7,588)	545	(230)	7,563	290
At 31 December 2020	(16,119)	2,754	2,565	(580)	(11,380)

Reconciliation to the consolidated statement of financial position:

	2020 US$'000	2019 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(15,502)**	(13,171)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**4,122**	3,600
	(11,380)	(9,571)

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(x), the Group has not recognised deferred tax assets in respect of cumulative tax losses attributable to certain subsidiaries of US$548,221,000 at 31 December 2020 (2019: US$520,555,000), as the directors consider that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

The tax losses incurred by PRC subsidiaries of US$145,053,000 will expire in the period from 2021 to 2030. The tax losses of US$403,168,000 are incurred by subsidiaries in other jurisdictions primarily in US and France, of which tax losses could be carried forward indefinitely.

(d) Deferred tax liabilities not recognised

At 31 December 2020, temporary differences relating to the undistributed profits of PRC subsidiaries amounted to US$383,068,000 (2019: US$252,689,000). Deferred tax liabilities of US$36,839,000 (2019: US$25,269,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 DEFERRED INCOME

	Note	Government subsidies for research and development projects US$'000
At 1 January 2019		23,905
Additions		4,841
Disposal of subsidiaries		(2,175)
Government grant recognised as other income	4	(1,237)
Exchange adjustments		(439)
At 31 December 2019 and 1 January 2020		24,895
Additions		17,877
Government grant recognised as other income	4	(7,034)
Exchange adjustments		2,106
At 31 December 2020		37,844

26 CONVERTIBLE BONDS

	Liability component US$'000	Equity component US$'000	Total US$'000
As at 1 January 2020	83,107	8,926	92,033
Issued by a subsidiary (note 26(b))	48,237	1,763	50,000
Interest charged during the year (note 5(a))	439	–	439
Conversion of convertible bonds (note 26(a))	(83,200)	(8,926)	(92,126)
As at 31 December 2020	48,583	1,763	50,346
Representing			
Non-current portion	48,583	1,763	50,346

(a) Convertible bonds issued by the company

As at 31 December 2019, the outstanding convertible bonds issued by the Company represented the convertible bonds due in May 2020 (the "2014 Convertible Bonds") with a principal amount of US$84,410,468.

In February 2020, the outstanding 2014 Convertible Bonds were fully converted to 95,949,033 ordinary shares of the Company at a conversion price of HK$6.84 per share. Accordingly, the carrying amount of the 2014 Convertible Bonds of US$83,200,000 was transferred to share capital of US$1,000 and share premium of US$83,199,000, respectively.

(b) Convertible bonds issued by a subsidiary

In October 2020, a subsidiary of the Group issued the convertible bonds in an aggregate principal amount of US$50,000,000, with a maturity date after two years from the acquisition of the convertible bonds (the " Subsidiary Convertible Bonds"). The Subsidiary Convertible Bonds bear an interest rate at 4% per annum on the outstanding balances.

Pursuant to the terms of the Subsidiary Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into the fully paid conversion shares of the subsidiary at the predetermined conversion price, subject to the adjustments under certain terms and conditions of the Subsidiary Convertible Bonds.

Based on the terms of the Subsidiary Convertible Bonds, these convertible bonds will be settled by exchange of a fixed amount of cash in US$ with a fixed number of equity instruments issued by the subsidiary. In accordance with the Group's accounting policy set out in note 1(r), these convertible bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

No conversion of the Subsidiary Convertible Bonds had been occurred up to 31 December 2020.

27 SHARE-BASED PAYMENT TRANSACTIONS

(a) Share option plans (equity-settled)

(i) Share option plans adopted by the Company

On 3 September 2010 and 18 June 2020, the Company adopted the share option plans (referred as the "2010 Option Plan" and "2020 Option Plan", respectively), pursuant to which, the board of directors may authorise, at their discretion, the issuance of share options to the executives, employees, external consultants or business associates of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

The terms, conditions and fair values at the grant date of the grants are as follows:

	Number of options	Fair value	Weighted average fair value per share option	Weighted average exercise price
		US$'000	US$	US$
Options granted to executives and directors on:				
7 September 2012	500,000	73	0.15	0.43
22 October 2012	500,000	84	0.17	0.54
2 January 2013	500,000	86	0.17	0.55
28 August 2013	250,000	55	0.22	0.64
9 December 2013	400,000	91	0.23	0.72
21 January 2014	650,000	184	0.28	0.69
28 August 2014	500,000	118	0.24	0.61
20 January 2015	29,400,000	4,459	0.15	0.41
30 June 2015	300,000	53	0.18	0.41
7 December 2015	2,000,000	306	0.15	0.39
30 March 2016	40,970,000	6,737	0.16	0.45
27 June 2016	700,000	122	0.17	0.50
23 January 2017	23,340,000	7,308	0.31	0.73
30 March 2017	3,277,472	950	0.29	0.75
25 August 2017	2,000,000	559	0.28	0.96
29 March 2018	2,451,474	1,100	0.45	1.10
24 December 2018	30,739,346	8,425	0.27	0.99
23 January 2019	4,570,994	292	0.06	1.00
1 April 2019	4,061,604	1,283	0.32	0.96
30 August 2019	500,000	131	0.26	0.90
31 March 2020	1,417,997	1,354	0.96	2.26
	149,028,887	33,770		

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) Share option plans (equity-settled) (continued)

(i) Share option plans adopted by the Company (continued)

	Number of options	Fair value US$'000	Weighted average fair value per share option US$	Weighted average exercise price US$
Options granted to employees on:				
17 October 2011	500,000	136	0.27	0.62
1 November 2011	750,000	185	0.25	0.58
28 August 2012	10,000,000	1,354	0.14	0.43
10 December 2012	13,300,000	2,354	0.18	0.59
31 March 2020	345,225	251	0.73	2.26
28 August 2020	750,000	1,018	1.36	4.48
28 December 2020	1,150,000	1,922	1.67	5.44
	26,795,225	7,220		
Options granted to consultants and business associates on:				
1 September 2016	750,000	199	0.27	0.64
8 October 2018	500,000	280	0.56	1.29
	1,250,000	479		

The above share options are vested in instalments over an explicit vesting period of one to five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of options is ten years.

(Expressed in United States dollars unless otherwise indicated)

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) Share option plans (equity-settled) (continued)

(i) Share option plans adopted by the Company (continued)

The number and weighted average exercise prices of share options are as follows:

	2020 Weighted average exercise price US$	**2020** Number of options	2019 Weighted average exercise price US$	2019 Number of options
Outstanding at the beginning of the year	**0.67**	**137,248,811**	0.65	135,911,869
Granted during the year	**3.71**	**3,663,222**	0.98	24,132,598
Exercised during the year	**0.48**	**(23,021,310)**	0.50	(5,210,600)
Forfeited during the year	**0.77**	**(722,302)**	0.51	(2,585,056)
Cancellation during the year	**–**	**–**	0.99	(15,000,000)
Outstanding at the end of the year	**0.81**	**117,168,421**	0.67	137,248,811
Exercisable at the end of the year	**0.70**	**37,642,342**	0.48	37,354,563

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from October 2021 through December 2030. As at 31 December 2020, the weighted average remaining contractual life for the share options granted under the 2010 and 2020 Share Option plans was 6.24 years (2019: 6.64 years).

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	**2020**	2019
Fair value at measurement dates	**HK\$4.57 to HK\$13.99**	HK\$1.68 to HK\$3.05
Share price	**HK\$17.54 to HK\$42.20**	HK\$6.95 to HK\$7.73
Exercise price	**HK\$17.54 to HK\$42.20**	HK\$6.95 to HK\$7.73
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	**44.12% to 47.19%**	38% to 38.54%
Option life	**10 years**	10 years
Suboptimal exercise factor	**1.29 to 1.5**	1.29 to 1.5
Expected dividend yield	**0.29% to 0.39%**	0.49%
Average risk-free interest rate	**0.57% to 0.69%**	1.104% to 1.949%
Forfeiture rate	**0% to 5.6%**	0% to 8.3%

(Expressed in United States dollars unless otherwise indicated)

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) Share option plans (equity-settled) (continued)

(i) Share option plans adopted by the Company (continued)

The expected volatility is determined by the historical volatility of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate. Expected dividend yield is based on historical dividends.

In respect of share options granted during 2020 and 2019, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

The total expenses recognised in the consolidated statement of profit or loss for the above transactions were US$6,492,000 for the year ended 31 December 2020 (2019: US$6,141,000).

(ii) Share option plan adopted by a subsidiary

In March 2020, MP CardioFlow Cayman adopted a subsidiary share option scheme (the "CardioFlow SOS"). CardioFlow SOS provides the eligible persons with the options to acquire proprietary interests in MP CardioFlow Cayman. Each option gives the holder the right to subscribe for one ordinary share of MP CardioFlow Cayman.

During the year ended 31 December 2020, 4,135,750 share options were granted under the CardioFlow SOS at an exercise price of US$3.2 per share of MP CardioFlow Cayman and 540,303 share options were forfeited prior to the vesting as a result of the resignations.

The above share options are vested in instalments over an explicit vesting period of five years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of options is ten years.

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. Back-solve method was used to determine the equity fair value of the ordinary shares of MP CardioFlow Cayman and the estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	2020
Fair value at measurement dates	**US$3.34 to US$3.56**
Share price	**US$6.01**
Exercise price	**US$3.20**
Expected volatility	**36.27%**
Option life	**10 years**
Expected dividend yield	**0.00%**
Risk-free interest rate	**0.68%**

The total expenses recognised in the consolidated statement of profit or loss for the above transaction were US$6,319,000 for the year ended 31 December 2020.

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(b) Share award scheme (equity-settled)

Pursuant to a share award scheme approved by the Board in 2011, the Company may purchase its own shares and grant such shares to certain employees of the Group at nil consideration.

For the year ended 31 December 2020, the Company granted 19,924,925 shares (2019: 10,780,877) to the Group's executives and employees with a fair value of US$39,899,000 (2019: US$10,578,000) and purchased 858,000 shares (2019: 19,426,000 shares) at cash consideration of US$3,496,000 (2019: US$17,632,000).

The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company, taking into account the discount due to the lack of marketability by 14.09% to 16.71%, where applicable.

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

Since 2014, the Group adopted several ESPPs, pursuant to which, the partnership firms, whose limited partners consisted of employees of the Group, invested in the Group's subsidiaries and equity-accounted investees (together, the "Target Companies") by way of subscribing newly issued equity interests of the Target Companies, or acquiring equity interests from the Group. All participants of above ESPPs have purchased equity interests in respective partnership firms at amounts specified in the respective partnership agreements.

All ESPPs contain a service condition. Employees participating in the plan have to transfer out their equity interests if their employments with the Group were terminated within the vesting period, to a person or a party nominated by the general partners of the partnership firms at a price no higher than the amounts specified in the respective partnership agreements. The fair value of the ESPP at the grant date, being the difference between the considerations and the fair value of the equity interests subscribed shall be spread over the vesting period and recognised as staff costs in the profit or loss.

The fair value of the equity interests subscribed was measured by reference to either (i) the price at which third party investors made contributions to these Targeted Companies or (ii) the valuation reports prepared by the external valuers and reviewed and approved by the management.

No expenses were recognised for the year ended 31 December 2020 in relation to the foresaid ESPPs of these Targeted Companies except for MP MedBot. The total expenses recognised in the consolidated statement of profit or loss for the above transaction were US$2,423,000 for the year ended 31 December 2020.

(Expressed in United States dollars unless otherwise indicated)

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(d) Long-term incentive awards (equity-settled)

In 2020, CRM Cayman has adopted long-term incentive plans (the "CRM LTI Plan"), pursuant to which, the Group granted performance-based restricted share units (the "RSUs") to the eligible participants of the Group who has contributed or will contribute to the development of CRM business. Each RSU will be settled by one ordinary share of either MP CRM or the Company, as the case may be.

During the year ended 31 December 2020, the Group granted in aggregation 2,752,552 RSUs and 550,304 RSUs were forfeited.

As at 31 December 2020, the number of outstanding RSUs was 2,202,248, of which 2,080,241 and 122,007 RSUs will be settled by ordinary shares of MP CRM and the Company, respectively. These RSUs will vest in instalments from 31 March 2021 to 31 March 2024.

The fair value of services received in return for RSUs is measured by reference to the fair value of the underlying ordinary shares of CRM Cayman and the Company. Back-solve method was used to determine the equity fair value of the ordinary shares of CRM Cayman and key assumptions used are summarised as below. The fair value of the underlying ordinary shares of the Company is measured based on the share price of the Company as of the grant date.

Fair value of the underlying ordinary shares of CRM Cayman and assumptions	**2020**
Fair value at measurement dates	**US$1.83**
Expected volatility	**39.97%**
Risk-free interest rate	**0.30%**
Expected probability of event	**65%**

The total expenses recognised in the consolidated statement of profit or loss for the above transaction were US$532,000 for the year ended 31 December 2020.

27 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

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

As at 31 December 2020, the number of outstanding and exercisable LTI awards was approximately 0.7 million and nil, respectively. The liabilities arising from the LTI awards was US$3.5 million, which were included in the trade and other payables.

(f) Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss during the current and prior years:

	2020 US$'000	2019 US$'000
Research and development costs	**6,874**	3,240
Distribution costs	**6,127**	8,329
Administrative expenses	**42,412**	6,957
Cost of sales	**252**	–
	55,665	18,526

The compensation expenses resulting from those schemes disclosed in notes 27(a), (b), (c) and (d) above were reflected as equity-settled share-based payment expenses in the consolidated statement of profit or loss with a corresponding increase primarily in the equity of the Group.

28 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	**Share capital** US$'000	**Share premium** US$'000	**Capital reserve** US$'000	**Retained earnings/ (accumulated losses)** US$'000	**Total** US$'000
Balance at 1 January 2019		16	349,089	10,499	233,144	592,748
Changes in equity for 2019:						
Total comprehensive income		–	–	–	(293,981)	(293,981)
Equity-settled share-based transactions		–	–	5,825	–	5,825
Shares issued under share option scheme	*28(c)(iii)*	–	3,481	(874)	–	2,607
Shares purchased under share award scheme	*27(b)*	–	–	(17,632)	–	(17,632)
Shares granted under share award scheme	*27(b)*	–	–	10,578	–	10,578
Dividends approved in respect of the previous year	*28(b)*	–	2,521	–	(5,951)	(3,430)
Conversion of convertible bonds		–	7,416	(1,447)	–	5,969
Balance at 31 December 2019 and 1 January 2020		**16**	**362,507**	**6,949**	**(66,788)**	**302,684**
Changes in equity for 2020:						
Total comprehensive income		**–**	**–**	**–**	**16,705**	**16,705**
Issue of ordinary shares by placing, net of issuance costs	*28(c)(i)*	**1**	**198,926**	**–**	**–**	**198,927**
Equity-settled share-based transactions		**–**	**–**	**8,400**	**–**	**8,400**
Shares issued under share option scheme	*28(c)(iii)*	**–**	**14,817**	**(3,841)**	**–**	**10,976**
Shares purchased under share award scheme	*27(b)*	**–**	**–**	**(3,496)**	**–**	**(3,496)**
Shares granted under share award scheme	*27(b)*	**–**	**–**	**39,899**	**–**	**39,899**
Dividends paid in respect of the previous year	*28(b)*	**–**	**(6,661)**	**–**	**–**	**(6,661)**
Conversion of convertible bonds	*26*	**1**	**92,125**	**(8,926)**	**–**	**83,200**
Balance at 31 December 2020		**18**	**661,714**	**38,985**	**(50,083)**	**650,634**

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

At the meeting of the board of directors held on 30 March 2020, the board of directors recommended the payment of a final dividend of HK5.3 cents (2019: HK2.9 cents) per ordinary share of the Company for the year ended 31 December 2019 (the "2019 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 2019 Final Dividend totalling US$11,723,000 was approved at the annual general meeting of the Company held on 18 June 2020 and is payable to shareholders of the Company whose names appeared on the register of members of the Company on 29 June 2020.

Of the 2019 Final Dividend, amount of US$6,661,000 (2019: US$3,430,000) was distributed in cash dividends, and amount of US$5,062,000 (2019: US$2,521,000) which was credited to share premium was distributed in 1,833,502 ordinary shares (2019: 3,896,181 ordinary shares) at an issue price of HK$22.032 per share (2019: HK$5.047).

After the period end, the directors of the Company proposed a final dividend for the year ended 31 December 2020 of HK4.3 cents per ordinary share, which has not been recognised as a liability at 31 December 2020.

(c) Share capital

(i) Ordinary shares

	2020		2019	
	Number of shares '000	**Amount US$'000**	Number of shares '000	Amount US$'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	**1,622,778**	**16**	1,602,326	16
Share issued upon a placing	**65,958**	**1**	–	–
Shares issued under share option plans (note 27(a)(ii))	**23,021**	**–**	5,210	–
Shares issued in lieu of cash dividends (note 28(b))	**1,834**	**–**	3,896	–
Shares issued in respect of conversion of convertible bonds (note 26)	**95,949**	**1**	11,346	–
At 31 December	**1,809,540**	**18**	1,622,778	16

On 2 July 2020, the Company completed a placing of 65,598,000 new ordinary shares of the Company at a price of HK$23.5 per share and received cash of US$198,927,000.

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.

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(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 (note 27(b)) as follows:

Month/year	No. of shares repurchased	Highest price paid per share US$	Lowest price paid per share US$	Aggregate considerations paid US$'000
October 2020	700,000	4.48	3.79	2,869
November 2020	158,000	4.18	3.86	627
	858,000			3,496

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 2020, 23,021,310 (2019: 5,210,600) share options were exercised to subscribe for 23,021,310 (2019: 5,210,600) ordinary shares in the Company at a total consideration of US$10,976,000 (2019: US$2,607,000), of which nil (2019: nil) and US$10,976,000 (2019: US$2,607,000) was credited to share capital and share premium, respectively. During the year ended 31 December 2020, the Group received cash consideration of US$11,729,000, of which, US$753,000 was consideration of share options exercised in 2019. In addition, an amount of US$3,841,000 (2019: US$874,000) was transferred from the capital reserve to the share premium account in accordance with policies set out in note 1(w)(iii).

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 1(aa).

(iii) Capital reserve

The capital reserve primarily comprises the following:

– the fair value of the actual or estimated number of unexercised share options granted to executives, employees and external consultants of the Group and other equity-settled share-based payment transactions (note 27) in accordance with the accounting policy adopted for share-based payments in note 1(w)(iii);

– the consideration paid for the purchase of the Company's shares net of the fair value of shares granted to the Group's executives under the share award scheme (note 28(c)(ii));

– the amount allocated to the unexercised equity component of convertible bonds (note 1(r)(i)) and preferred shares (note 1(v)).

– gain/loss on acquisition or dilution of interests in subsidiaries where the Group's interest in a subsidiary is increased/decreased without losing control (note 1(d));

– initial recognition on share repurchase obligations and changes in amortised costs of share repurchase obligations (note 20); and

– remeasurement gain/loss arising from defined benefit retirement plans.

(iv) Statutory general reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained profits to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

28 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines "capital" as including all components of equity, lease liabilities, convertible bonds, non-current interest-bearing borrowings (including the current portion) and other non-current liabilities, less unaccrued proposed dividends based on the number of ordinary shares as at 31 December 2020. On this basis, the amount of capital employed at 31 December 2020 was US$1,955,018,000 (2019: US$1,184,651,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings and convertible bonds based on the Group's financial ratios relating to capital requirements. The Group complied with the imposed loan covenants as at 31 December 2020 and 2019. Except for the above, neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

29 DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES

(a) MP CardioFlow Cayman

In April 2020, MP CardioFlow Cayman completed a series D financing (the "CardioFlow Series D Financing"), pursuant to which, certain investors (the "CardioFlow Series D Investors") agreed to (i) subscribe for 8,977,273 CardioFlow Series D Preferred Shares at an aggregated cash consideration of US$100 million and (ii) acquire 2,693,182 ordinary shares of MP CardioFlow Cayman held by the Group at an aggregated cash consideration of US$30 million. The shares acquired from the Group were converted to CardioFlow Series D Preferred Shares immediately.

Upon the completion of the CardioFlow Series D Financing, the Group's voting rights in MP CardioFlow Cayman were diluted to approximately 50.06% and retained control over MP CardioFlow Cayman.

Such disposal of partial equity interest in MP CardioFlow Cayman was treated as a transaction within its shareholders in their capacity as equity holders. As a result, the amount of US$9,731,000, being the gains on the disposal of equity interests in MP CardioFlow Cayman of US$10,809,000 and net of the direct tax effects relating to the disposal equity interests in MP CardioFlow Cayman of US$1,078,000, was credited to "capital reserve" account of the Group.

29 DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES (CONTINUED)

(b) Suzhou MP Orthopedics

On 13 May 2020, the Group entered into agreements with certain investors, pursuant to which, these investors agreed to contribute in aggregate RMB580 million (equivalent to US$81,525,000) to the capital of Suzhou MP Orthopedics. Among these investors, entities held by employees of the Group (the "Employee Investors") contributed in aggregate RMB100 million (equivalent to US$14,033,000), of which RMB55 million (equivalent to US$7,741,000) was from Hopeway Biotech which pledged its equity interests in Suzhou MP Orthopedics as security for a loan from MP investment (note 16). The contributions paid by the Employee Investors including Hopeway Biotech were determined at the same rate as agreed between the Group and the non-employee investors.

Upon the completion of the transaction, the Group's effective interest in Suzhou MP Orthopedics was diluted from 100% to 85.17% and Suzhou MP Orthopedics remained a subsidiary of the Group. Such contribution from non-controlling interests in Suzhou MP Orthopedics was treated as a transaction within its shareholders in their capacity as equity holders. Accordingly, the amount of US$48,699,000 being the difference between the cash contributions made by these investors of US$81,525,000 and the carrying amount of net assets in proportion of the diluted equity interests in Suzhou MP Orthopedics as at the date of dilution was credited to capital reserve of the Group.

(c) MP MedBot

During the year ended 31 December 2020, the Group, MP MedBot and other shareholders of MP MedBot entered into a series of agreements with several investors as below:

(i) the Group transferred 7.14% of the registered capital in MP MedBot to the investors at the cash consideration of RMB1,500 million (equivalent to US$218,643,000);

(ii) the investors contributed additional capital to MP MedBot in the aggregate amount of RMB1,509 million (equivalent to US$221,303,000).

(iii) several partnership firms whose shareholder consists of the employees of the Group subscribed for newly issued registered capital of MP MedBot at a cash consideration of RMB60,730,000 (equivalent to US$8,576,000).

Upon the completion of these transactions, the Group's effective interest in MP MedBot decreased to 53.75% and MP MedBot remained a subsidiary of the Group. The above transactions were all treated as transactions within its shareholders in their capacity as equity holders.

The amount of US$164,013,000, being the difference between the cash consideration of equity interest transferred in the transaction (i) above and the carrying amount of net assets in proportion of the disposed equity interests in MP MedBot as at the date of disposal of US$218,384,000 and net of the direct tax effects in relation to the disposal of equity interest in MP MedBot of US$54,371,000, was credited to capital reserve of the Group.

The amount of US$124,937,000, being the difference between the cash contribution made by these investors in the transactions (ii) and (iii) above and the carrying amount of net assets in proportion of the diluted equity interests MP MedBot as at the date of dilution, was credited to capital reserve of the Group.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Except for the guarantee issued by the Group as set out in note 20, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the guarantee at the end of the reporting period is disclosed in note 30(b).

(i) Trade receivables

At the end of the reporting period, 8.4% (2019: 14%) and 21.4% (2019: 31%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay deposits upfront and the remaining trade receivables are due within 30 to 360 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. For the purpose of determining ECLs, the Group has analysed the trade receivables based on different segments and countries.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

(i) Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2020:

	2020		
	Weighted average expected loss rate %	**Gross carrying amount US$'000**	**Loss allowance US$'000**
Current and less than 1 year past due	**1.2**	**160,760**	**1,906**
1- 3 years past due	**50.9**	**2,854**	**1,452**
More than 3 years past due	**91.9**	**6,902**	**6,341**
		170,516	**9,699**

	2019		
	Weighted average expected loss rate %	Gross carrying amount US$'000	Loss allowance US$'000
Current and less than 1 year past due	1.7	210,751	3,597
1- 3 years past due	47.3	6,542	3,097
More than 3 years past due	98.1	3,045	2,986
		220,338	9,680

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

(i) Trade receivables (continued)

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

	2020 US$'000	2019 US$'000
Balance at 1 January	9,680	10,607
Amounts written off during the year	(1,521)	(434)
Provision for/(reversal of) impairment during the year	841	(172)
Disposal of subsidiaries	–	(214)
Exchange adjustments	699	(107)
Balance at 31 December	9,699	9,680

(b) Liquidity risk

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

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

	2020 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	13,092	74,377	78,991	33,163	199,623	192,879
Convertible bonds	2,000	51,833	–	–	53,833	48,583
Lease liabilities	12,848	11,831	23,652	8,769	57,100	54,848
Trade and other payables	403,838	278	249,853	4,741	658,710	562,495
	431,778	138,319	352,496	46,673	969,266	858,805
Financial guarantee issued:						
Maximum amount guaranteed (note 20(iii))	–	–	13,000	–	13,000	13,000

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

	2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000	Total US$'000	Carrying amount at 31 December US$'000
Interest-bearing borrowings	43,704	67,274	247,338	–	358,316	320,199
Convertible bonds	85,106	–	–	–	85,106	83,107
Lease liabilities	12,316	10,955	26,598	13,317	63,186	54,705
Trade and other payables	237,681	538	177,412	16,130	431,761	387,322
	378,807	78,767	451,348	29,447	938,369	845,333
Financial guarantee issued:						
Maximum amount guaranteed (note 20(iii))	–	–	13,000	–	13,000	4,201

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings and convertible bonds. Borrowings issued at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate risk profile as monitored by management is set out in (i) below.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(i) Interest rate risk profile

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

	2020		2019	
	Effective interest rate	**Amount US$'000**	Effective interest rate	Amount US$'000
Net fixed rate instruments:				
Deposits with banks	**0.05% – 2.03%**	**403,140**	0.001%	1,558
Interest-bearing borrowings	**3.10% – 3.95%**	**(45,196)**	3.92%	(5,805)
Convertible preferred shares issued by subsidiaries	**9.09% – 15%**	**(362,957)**	9.09% – 15%	(135,800)
Lease liabilities	**3.88% – 9.50%**	**(54,848)**	4.13% – 9.5%	(54,705)
Convertible bonds	**4.00%**	**(48,583)**	–	–
		(108,444)		(194,752)
Net variable rate instruments:				
Cash at banks	**0% – 2.03%**	**598,937**	0% – 2.75%	278,519
Deposits with banks	**1.75% – 2.75%**	**623**	0.30% – 1.75%	1,767
Interest-bearing borrowings	**1.22% – 5.64%**	**(147,683)**	1.79% – 5.95%	(314,394)
Convertible bonds	**–**	**–**	5.24%	(83,107)
		451,877		(117,215)
		343,433		(311,967)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's loss for the year by approximately US$4,064,000 (2019: decreased/increased profit by US$1,251,000) and decreased/increased accumulated losses by approximately US$2,738,000 (2019: decreased/increased retained profit by US$1,889,000), respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's (loss)/profit after tax (and accumulated losses) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's (loss)/profit after tax (and accumulated losses) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as 2019.

(d) Currency risk

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables, payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and US$ and (ii) intra-group borrowings that are denominated in RMB, between the PRC subsidiaries, whose functional currency is RMB and overseas subsidiaries, whose functional currency is Hong Kong dollars or US$.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk

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

	Exposure to foreign currencies (expressed in US$)					
	2020			2019		
	Euros US$'000	**US$ US$'000**	**RMB US$'000**	Euros US$'000	US$ US$'000	RMB US$'000
Trade and other receivables	**2,778**	**9,965**	**4,190**	2,587	5,766	9,362
Cash and cash equivalents	**1,455**	**9,637**	**64**	2,524	14,729	261
Trade and other payables	**(1,603)**	**(15,111)**	**(147)**	(3,178)	(3,590)	(2)
Amounts due (to)/from group companies	**(4,809)**	**(1,388)**	**(5,976)**	(7,808)	2,395	(14,551)
Amounts due from related parties	**–**	**1,799**	**–**	–	5,495	317
Derivative financial liabilities	**–**	**(2,093)**	**–**	–	–	–
Net exposure arising from recognised assets and liabilities	**(2,179)**	**2,809**	**(1,869)**	(5,875)	24,795	(4,613)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

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

	2020		2019	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and accumulated losses US$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits US$'000
RMB (against US$)	**3%**	**(51)**	3%	(768)
	(3)%	**51**	(3)%	768
Euros (against US$)	**3%**	**(62)**	3%	(139)
	(3)%	**62**	(3)%	139

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of the entities into the Group's presentation currency. The analysis has been performed on the same basis for 2019.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team with assistance of external valuers, performing valuations for the financial instruments, including unlisted equity securities and put options which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the Group's management.

		Fair value measurements as at 31 December 2020 categorised into		
	Fair value at 31 December 2020 US$'000	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
Recurring fair value measurement				
Financial assets:				
Unlisted debt and equity securities (note 15)	**19,605**	**–**	**–**	**19,605**
Derivative financial instruments:				
– Warrants issued by an equity-accounted investees (note 14)	**1,920**	**–**	**–**	**1,920**
Financial liabilities:				
Series D Adjustment (i)	**(9,252)**	**–**	**–**	**(9,252)**
Put option written to				
– SRL ("SRL Put Option")(ii)	**(11,116)**	**–**	**–**	**(11,116)**
– Witney Global Limited ("Witney Put Option")(iii)	**(2,093)**	**–**	**–**	**(2,093)**
Derivative financial instruments:				
– Interest rate swaps	**(410)**	**–**	**(410)**	**–**

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

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

	Fair value at 31 December 2019 US$'000	Fair value measurements as at 31 December 2019 categorised into Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
Recurring fair value measurement				
Financial assets:				
Unlisted debt and equity securities	20,125	–	–	20,125
Financial liabilities:				
– SRL Put Option	(11,162)	–	–	(11,162)
– Witney Put Option	(1,642)	–	–	(1,642)

Notes:

i Pursuant to the shareholders' agreement in relation to the CardioFlow Series D Preferred Financing, MP CardioFlow Cayman shall issue additional CardioFlow Series D Preferred Shares to the CardioFlow Series D Investors under certain conditions (the "Series D Adjustment"). The Series D Adjustment is recognised as a derivative financial liability and is measured at fair value through profit or loss.

ii Pursuant to the latest shareholders' agreement among CRM Cayman and its existing shareholders, in the event that an initial public offering or a trade sale of the CRM business has not occurred on or prior to the fifth anniversary of the closing of the acquisition of the CRM business, SRL has the right to require the Company to purchase any or all of series A preferred shares of CRM Cayman held by SRL at a price equal to the original investment plus an annual internal return of 8%.

Upon receipt of SRL's notice of exercising the SRL Put Option, the Company shall have the right to decide whether to pay its consideration in cash or by issuing to SRL new shares of the Company, or with a combination of cash and shares of the Company. The SRL Put Option is considered to be a derivative financial liability which was measured at fair value on initial recognition.

iii In January 2019, the Group granted a put option to Witney Global Limited ("Witney"), who is a co-investor of certain investees in which the Group also invested. Pursuant to the terms of the Witney Put Option, in the event of these investees' failure to submit a feasibility study protocol or clinical trial protocol to the relevant authorities in overseas markets or a qualified exit not occurring before the fifth anniversary of the investments made by Witney, Witney has the right to require the Group to purchase any of all of the interests in above investees held by Witney at a price equal to the original investment plus an annual internal return of LIBOR+1%.

During the years ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(Expressed in United States dollars unless otherwise indicated)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

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

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range
Unlisted equity securities	Recent transaction price	Fair value of the underlying equity securities	N/A
	Equity allocation model (Note a)	Expected volatility, taking into account the historical volatility of the comparable companies	From 36% to 39%
		Expected probability of event	50%
Warrants	Binomial tree model (Note b)	Expected volatility, taking into account the historical volatility of the comparable companies	48%
Series D Adjustment	Equity allocation model (Note c)	Expected probability of event	70%
SRL Put Option	Black-Scholes option pricing model (Note d)	Expected volatility, taking into account the historical volatility of the comparable companies	44%
		Expected probability of event	35%
Witney Put Option	Black-Scholes option pricing model (Note e)	Expected volatility, taking into account the historical volatility of the comparable companies	40%
		Expected probability of event	50%

Note a As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have increased/decreased the Group's loss by US$212,000/US$212,000 and an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's loss by US$74,000/US$106,000.

Note b As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decrease/increase the Group's loss by US$242,000/US$252,000.

Note c As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have decrease/increase the Group's loss by US$110,000/US$110,000.

Note d As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have increased/decreased the Group's loss by US$3,176,000/US$3,176,000 and an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by US$390,000/US$367,000.

Note e As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have increased/decreased the Group's loss by US$419,000/US$419,000 and an increase/decrease in the expected volatility by 5% would have increase/decrease the Group's loss by US$202,000/US$204,000.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement (continued)

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

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	Financial assets US$'000	Financial liabilities US$'000
At 1 January 2020	20,125	(12,804)
Additional investments	10,532	–
Changes in fair value recognised in profit or loss during the year	(5,225)	(10,041)
Disposal and transfer	(4,315)	516
Exchange adjustments	408	(132)
At 31 December 2020	21,525	(22,461)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 2019.

31 COMMITMENTS

Capital commitments in respect of property, plant and equipment, intangible assets and certain investments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 US$'000	2019 US$'000
Contracted for	**40,000**	12,876
Authorised but not contracted for	**158,000**	174,170
	198,000	187,046

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

	2020 **US$'000**	2019 US$'000
Salaries and other benefits	**2,934**	2,780
Discretionary bonuses	**177**	1,542
Retirement scheme contributions	**89**	67
Equity-settled share-based payment expenses	**40,527**	5,400
Cash-settled share-based payment expenses	**468**	597
	44,195	10,386

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

(b) Financing arrangements

	2020 **US$'000**	2019 US$'000
Loans to equity-accounted investees (Note)	**3,775**	3,905
Loans repaid by equity-accounted investees	**300**	1,485
Loans (repaid to)/from Shanghai Jingjie Medtech Co., Ltd.	**(633)**	2,038
Loans to Hopeway Biotech (note 16)	**24,205**	–

Note: As at 31 December 2020, loans to equity-accounted investees of the Group of US$10,501,000 bore an interest rate at 4.75% p.a..

As disclosed in notes 16, Suzhou MP Orthopedics and MP Neuro issued new share capital to Hopeway Biotech.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sales to related parties

For the year ended 31 December 2020 and 2019, the Group entered into sales transactions with the following related parties:

Name of party	**Relationship**
Thai Otsuka Pharmaceutical Co., Ltd. ("Thai Otsuka")	Subsidiary of Otsuka Holdings Co., Ltd. ("Otsuka Holdings"), the controlling party of substantial shareholder of the Company
Otsuka (Philippines) Pharmaceutical, Inc. ("Otsuka Philippines")	Subsidiary of Otsuka Holdings
P.T. Otsuka Indonesia ("Otsuka Indonesia")	Subsidiary of Otsuka Holdings
Otsuka Pakistan Ltd. ("Otsuka Pakistan")	Subsidiary of Otsuka Holdings
JIMRO Co., Ltd.	Subsidiary of Otsuka Holdings
KISCO Co., Ltd.	Subsidiary of Otsuka Holdings
MP EP (Note)	Equity-accounted investee of the Group
Horizon	Equity-accounted investee of the Group
Purple Medical Solutions Private Limited ("Purple Medical")	Equity-accounted investee of the Group
Shanghai MicroPort Lifesciences Co., Ltd. ("MP Lifesciences")	Equity-accounted investee of the Group

Note: Upon the completion of the MP EP's disposal during 2019, MP EP become an equity-accounted investee of the Group. The transactions with MP EP since the date of the disposal were disclosed as related party transactions.

Particulars of the Group's sales transactions with these parties are as follows:

	2020 **US$'000**	2019 US$'000
Thai Otsuka	**3,236**	3,841
Otsuka Philippines	**403**	698
Otsuka Indonesia	**225**	992
Otsuka Pakistan	**148**	556
JIMRO Co., Ltd.	**–**	34
KISCO Co., Ltd.	**412**	579
MP EP	**751**	379
Horizon	**223**	–
Purple Medical	**209**	–
MP Lifesciences	**80**	–

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

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Other transactions with related parties

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

Name of party	**Relationship**
MP EP	Equity-accounted investee of the Group

	2020 **US$'000**	2019 US$'000
Purchase from MP EP	**524**	1,669
Rental income from MP EP	**260**	–

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

The related party transactions with subsidiaries of Otsuka Holding and Hopeway Biotech constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the paragraph "Connected transactions" in the reports of the directors.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2020 US$'000	31 December 2019 US$'000
Non-current assets		
Investments in subsidiaries	**640,069**	509,427
Interest in equity-accounted investees	**6,601**	4,881
Other financial assets	**–**	5,500
	646,670	519,808
Current assets		
Other receivables	**7,742**	44,859
Cash and cash equivalents	**40,963**	17,704
	48,705	62,563
Current liabilities		
Amounts due to subsidiaries	**6,911**	6,554
Other payables	**13,714**	5,521
Interest-bearing borrowings	**–**	15,679
Convertible bonds (note 26)	**–**	83,107
	20,625	110,861
Net current assets/(liabilities)	**28,080**	(48,298)
Total assets less current liabilities	**674,750**	471,510
Non-current liabilities		
Interest-bearing borrowings	**–**	153,463
Other payables	**13,000**	4,201
Derivative financial liabilities (note 30(e))	**11,116**	11,162
	24,116	168,826
NET ASSETS	**650,634**	302,684
CAPITAL AND RESERVES (note 28(a))		
Share capital	**18**	16
Reserves	**650,616**	302,668
TOTAL EQUITY	**650,634**	302,684

(Expressed in United States dollars unless otherwise indicated)

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 4 February 2021, MP CardioFlow Cayman was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "CardioFlow Listing"). Upon the completion of the CardioFlow Listing, (i) all preferred shares issued by MP CardioFlow Cayman were converted into the ordinary shares; and (ii) MP CardioFlow Cayman issued 205,620,000 ordinary shares at the price of HK$12.2 per share and received gross proceeds of HK$2,508.6 million. The Group retained its control over MP CardioFlow Cayman.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*	1 January 2021
Annual Improvements to HKFRS Standards 2018 – 2020	1 January 2022
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous contracts — cost of fulfilling a contract*	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2022
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.