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MicroPort Scientific Corporation

微創醫療科學有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00853)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

The board (the "**Board**") of directors (the "**Directors**") of MicroPort Scientific Corporation (the "**Company**" or "**MicroPort**") announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the six months ended 30 June 2020 (the "**Reporting Period**"), which have been reviewed by the Company's audit committee (the "**Audit Committee**"). The financial highlights of the Group during the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended 30 June		
	2020	2019	Change
	US$'000	*US$'000*	*%*
	(unaudited)	(unaudited)	
Revenue	**306,922**	392,607	(21.8%)
Gross profit	**217,588**	281,638	(22.7%)
(Loss)/profit for the period	**(68,762)**	60,849	(213.0%)
(Loss)/profit attributable to equity shareholders	**(65,562)**	65,476	(200.1%)
(Loss)/earnings per share			
Basic (in cents)	(3.90)	4.15	(194.0%)
Diluted (in cents)	(3.94)	3.50	(212.6%)

During the Reporting Period, total revenue of the Group was US$306.9 million, representing a decline of 19.7% (excluding the foreign exchange impact) or 21.8% (in US$) as compared to the corresponding period of 2019. Among which, endovascular and peripheral vascular devices business recorded a revenue increase of 25.0% (excluding the foreign exchange impact). Due to the impact of the COVID-19 pandemic resulting in the postponement of outpatient visits and surgeries in medical institutions, cardiovascular devices, orthopedics devices and cardiac rhythm management business recorded revenue decrease of 29.1%, 22.8% and 20.2% respectively (excluding the foreign exchange impact).

The Group recorded a loss of US$68.8 million (loss attributable to equity shareholders: US$65.6 million) for the six months ended 30 June 2020, compared to a profit of US$60.8 million (profit attributable to equity shareholders: US$65.5 million) for the six months ended 30 June 2019. The decrease was mainly attributable to (i) the impact of the COVID-19 pandemic, which resulted in the decrease of revenue as compared to the six months ended 30 June 2019; (ii) the impact of the incentive shares granted to certain employees (including one executive director) pursuant to the Share Award Scheme of the Group during the Reporting Period; (iii) lack of the one-time investment gain on partial disposal of equity interest in Shanghai MicroPort EP Meditech Co., Ltd. for the same period of last year.

I. UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 (unaudited)
(Expressed in United States dollars)

		Six months ended 30 June	
		2020	2019
	Note	***US$'000***	*US$'000*
Revenue	*3*	**306,922**	392,607
Cost of sales		**(89,334)**	(110,969)
Gross profit		**217,588**	281,638
Other net income	*4*	**30,808**	8,613
Research and development costs		**(72,803)**	(67,968)
Distribution costs		**(111,972)**	(126,465)
Administrative expenses		**(90,614)**	(54,974)
Other operating costs	*5(c)*	**(9,611)**	(5,860)
(Loss)/profit from operations		**(36,604)**	34,984
Finance costs	*5(a)*	**(16,071)**	(9,560)
Gain on disposal of subsidiaries		**–**	63,105
Share of losses of equity-accounted investees		**(2,522)**	(1,318)
(Loss)/profit before taxation	*5*	**(55,197)**	87,211
Income tax	*6*	**(13,565)**	(26,362)
(Loss)/profit for the period		**(68,762)**	60,849
Attributable to:			
Equity shareholders of the Company		**(65,562)**	65,476
Non-controlling interests		**(3,200)**	(4,627)
(Loss)/profit for the period		**(68,762)**	60,849
(Loss)/earnings per share	*7*		
– Basic (in cents)		**(3.90)**	4.15
– Diluted (in cents)		**(3.94)**	3.50

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 (unaudited)
(Expressed in United States dollars)

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
(Loss)/profit for the period	**(68,762)**	60,849
Other comprehensive income for the period, net of tax		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit liabilities	**(17)**	(842)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements, net of nil tax	**(10,664)**	(1,830)
Other comprehensive income for the period	**(10,681)**	(2,672)
Total comprehensive income for the period	**(79,443)**	58,177
Attributable to:		
Equity shareholders of the Company	**(74,940)**	63,092
Non-controlling interests	**(4,503)**	(4,915)
Total comprehensive income for the period	**(79,443)**	58,177

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 (unaudited)
(Expressed in United States dollars)

	Note	At 30 June 2020		At 31 December 2019	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current assets					
Investment properties			**5,127**		5,222
Other property, plant and equipment			**424,215**		428,786
			429,342		434,008
Intangible assets			**127,008**		125,811
Goodwill			**161,278**		160,520
Equity-accounted investees			**66,591**		54,183
Other financial assets			**20,420**		20,125
Deferred tax assets			**10,738**		13,171
Prepayments for non-current assets			**10,034**		7,551
Other non-current assets			**46,061**		41,628
			871,472		856,997
Current assets					
Inventories		**225,897**		192,321	
Trade and other receivables	*8*	**227,517**		266,789	
Pledged deposits and time deposits		**3,045**		1,767	
Cash and cash equivalents		**471,273**		280,077	
Derivative financial assets		**430**		–	
		928,162		740,954	
Current liabilities					
Trade and other payables	*9*	**218,993**		283,780	
Contract liabilities		**8,241**		9,522	
Interest-bearing borrowings	*10*	**100,910**		32,092	
Convertible bonds	*11*	**–**		83,107	
Lease liabilities		**11,035**		10,178	
Income tax payable		**9,135**		13,122	
		348,314		431,801	
Net current assets			**579,848**		309,153
Total assets less current liabilities			**1,451,320**		1,166,150

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 (unaudited) (continued)
(Expressed in United States dollars)

	Note	**At 30 June 2020**		At 31 December 2019	
		US$'000	***US$'000***	*US$'000*	*US$'000*
Non-current liabilities					
Interest-bearing borrowings	*10*	**257,912**		288,107	
Lease liabilities		**41,853**		44,527	
Deferred income		**23,480**		24,895	
Contract liabilities		**22,326**		21,463	
Other payables	*9*	**310,416**		116,789	
Deferred tax liabilities		**3,529**		3,600	
Derivative financial liabilities		**13,692**		12,804	
			673,208		512,185
Net assets			**778,112**		653,965
Capital and reserves	*12*				
Share capital			**17**		16
Reserves			**629,168**		519,008
Total equity attributable to equity shareholders of the Company			**629,185**		519,024
Non-controlling interests			**148,927**		134,941
Total equity			**778,112**		653,965

II. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United States dollars unless otherwise indicated)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It has been reviewed by the audit committee of the Company and approved for issue on 27 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (together, the "Group") since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's annual consolidated financial statements for the year ended 31 December 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2020.

2 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*
- Amendments 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 amendments to HKFRS 3 do not have a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

Amendments 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 interim reporting period. 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.

3 Revenue and segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both lines of business 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.

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products of service lines		
– Sales of medical devices	**306,786**	387,590
– Revenue from post-sales services *(Note)*	**–**	4,874
	306,786	392,464
Revenue from other sources		
– Gross rentals from investment properties	**136**	143
	306,922	392,607

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
Disaggregate by geographical location of external customers		
– the People's Republic of China (the "PRC") (country of domicile)	**135,076**	177,866
– North America	**41,926**	50,284
– Europe	**92,557**	122,780
– Asia (excluding the PRC)	**30,391**	31,772
– South America	**4,542**	4,542
– Others	**2,430**	5,363
	171,846	214,741
	306,922	392,607

Note: The Group did not further recognise the revenue from post-sales services in the first half year of 2020 due to the limited follow-ups because of the lock-down and uncertainties of the follow-up practice model brought by the COVID-19 outbreak.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

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

Disaggregation of revenue from contracts with customers by 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 period is set out below:

	Six months ended 30 June 2020									
	Cardiovascular devices business	Orthopedics devices business	Cardiac rhythm management business	Endovascular and peripheral vascular devices business	Neurovascular devices business	Heart valve business	Surgical devices business	Surgical robot devices business	Others[#]	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Disaggregated by timing of revenue recognition										
Point in time – sales of medical devices	88,369	86,483	82,699	30,549	10,916	5,155	2,139	–	476	306,786
Over time – rental income	–	136	–	–	–	–	–	–	–	136
	88,369	86,619	82,699	30,549	10,916	5,155	2,139	–	476	306,922
Reportable segment net profit/(loss)	33,778	(32,981)	(13,242)	16,529	(313)	(17,275)	(2,181)	(2,309)	(6,935)	(24,929)

	At 30 June 2020									
	Cardiovascular devices business	Orthopedics devices business	Cardiac rhythm management business	Endovascular and peripheral vascular devices business	Neurovascular devices business	Heart valve business	Surgical devices business	Surgical robot devices business	Others[#]	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Reportable segment assets	**514,270**	**471,418**	**357,357**	**180,056**	**51,025**	**165,553**	**21,901**	**25,650**	**54,136**	**1,841,366**
Reportable segment liabilities	**88,891**	**246,947**	**237,392**	**17,890**	**21,547**	**192,721**	**15,973**	**4,685**	**278**	**826,324**

	Six months ended 30 June 2019 (Re-presented)									
	Cardiovascular devices business	Orthopedics devices business	Cardiac rhythm management business	Endovascular and peripheral vascular devices business	Neurovascular devices business	Heart valve business	Surgical devices business	Surgical robot devices business	Others[#]	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Disaggregated by timing of revenue recognition										
Point in time – sales of medical devices	129,040	113,382	101,705	25,567	12,331	–	2,142	–	3,423	387,590
Over time – post-sales services	–	–	4,874	–	–	–	–	–	–	4,874
Over time – rental income	27	48	–	–	68	–	–	–	–	143
	129,067	113,430	106,579	25,567	12,399	–	2,142	–	3,423	392,607
Reportable segment net profit/(loss)	61,871	(12,743)	(18,038)	12,329	3,115	(11,007)	(2,393)	(2,912)	(2,114)	28,108

	At 31 December 2019 (Re-presented)									
	Cardiovascular devices business	Orthopedics devices business	Cardiac rhythm management business	Endovascular and peripheral vascular devices business	Neurovascular devices business	Heart valve business	Surgical devices business	Surgical robot devices business	Others[#]	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Reportable segment assets	513,440	420,770	341,016	168,139	50,996	76,638	23,315	15,814	47,316	1,657,444
Reportable segment liabilities	112,014	226,645	212,613	16,109	17,590	57,392	16,137	3,981	397	662,878

[#] Revenues and results from segments below the quantitative thresholds are mainly attributable to electrophysiology devices business, which was disposed during the six months ended 30 June 2019, diabetes and endocrinal devices business, etc. None of those segments individually met any of the quantitative thresholds for reportable segments.

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
Reportable segment net (loss)/profit	**(17,994)**	30,222
Other losses	**(6,935)**	(2,114)
Share awards scheme *(Note)*	**(35,281)**	(3,375)
Other equity-settled share-based payment expenses	**(3,381)**	(3,683)
Unallocated exchange gain/(loss)	**193**	(290)
Gain on disposal of subsidiaries, net of tax	**–**	55,843
Unallocated expenses, net	**(5,364)**	(15,754)
Consolidated (loss)/profit for the period	**(68,762)**	60,849

Note: The amount of share award scheme includes the impact of restricted share units granted to one executive director amounting to US$32,747,000.

4 Other net income

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
Government grants	**12,815**	9,763
Interest income on bank deposits and structured deposits	**2,611**	570
Interest income on financial assets carried at amortised cost	**423**	438
Net gain on disposal of property, plant and equipment	**555**	898
Net foreign exchange (loss)/gain	**(1,375)**	24
Net realised and unrealised losses on financial instruments carried at fair value through profit or loss	**(792)**	(874)
Refund from an arbitration in relation to an acquisition in previous year *(Note)*	**16,420**	–
Others	**151**	(2,206)
	30,808	8,613

Note: Under the term of a stock and asset purchase agreement dated 8 March 2018 in relation to the acquisition of the cardiac rhythm management ("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$16.4 million 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 six months ended 30 June 2020.

5 (Loss)/profit before taxation

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

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
(a) Finance costs		
Interest on the convertible bonds	**93**	1,847
Interest on other interest-bearing borrowings	**6,125**	5,488
Interest on preferred shares issued by MicroPort CardioFlow Medtech Corporation *(Note)*	**7,450**	–
Interest on lease liabilities	**1,247**	1,049
Others	**1,127**	443
Total interest expense on financial liabilities not at fair value through profit or loss	**16,042**	8,827
Changes in the fair value of interest rate and cross currency swaps	**29**	–
Interest accrued on advance payments from customers	**–**	854
Less: Interest expense capitalised into properties under development (at a rate of 4.7% per annum)	**–**	(121)
	16,071	9,560

Note: The amount represents changes in the value of preferred shares issued by MicroPort CardioFlow Medtech Corporation ("MP CardioFlow Cayman", a subsidiary of the Group) during the period (note 9).

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
(b) Other items		
Amortisation of intangible assets	**5,700**	4,327
Depreciation		
– owned property, plant and equipment	**20,654**	16,496
– right-of-use assets	**6,541**	5,815
Research and development costs (other than amortisation)	**70,466**	66,036
Provision of inventories write-down	**2,623**	870
Impairment losses		
– intangible assets	**1,835**	–
– trade and other receivables	**587**	315

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*

(c) Other operating costs

Legal and profession fee	**6,451**	2,177
Impairment loss of intangible assets *(note 5(b))*	**1,835**	–
Donations	**884**	209
Equity-settled share-based payment expenses	**–**	3,172
Others	**441**	302
	9,611	5,860

6 Income tax

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
Current tax – the PRC corporate income tax ("CIT")	**10,150**	24,608
Current tax – other jurisdictions	**964**	913
	11,114	25,521
Deferred taxation	**2,451**	841
	13,565	26,362

Pursuant to the CIT Law of the PRC, during the six months ended 30 June 2020, all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25% except for eight 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.

7 (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$65,562,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: profit of US$65,476,000) and the weighted average of 1,681,821,000 ordinary shares in issue during the six months ended 30 June 2020 (six months ended 30 June 2019: 1,579,002,000 ordinary shares).

(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$68,397,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: profit of US$62,581,000) and the weighted average number of ordinary shares of 1,737,673,000 shares for the six months ended 30 June 2020 (six months ended 30 June 2019: 1,789,073,000 ordinary shares) after adjusting the effects of share repurchase obligation that may be settled in ordinary shares of the Company.

8 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	At 30 June 2020	At 31 December 2019
	US$'000	*US$'000*
Within 1 month	**92,104**	98,515
1 to 3 months	**34,916**	82,625
3 to 12 months	**29,146**	23,419
More than 12 months	**6,205**	6,099
	162,371	210,658
Other debtors	**32,559**	31,013
Income tax recoverable	**7,005**	3,765
Deposits and prepayments	**25,582**	21,353
	227,517	266,789

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

9 Trade and other payables

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

	At 30 June 2020	At 31 December 2019
	US$'000	*US$'000*
Current		
Within 1 month	**39,342**	52,173
1 to 3 months	**15,359**	15,495
Over 3 months but within 6 months	**4,766**	1,921
Over 6 months but within 1 year	**434**	2,862
Over 1 year	**9,114**	17,669
Trade payables	**69,015**	90,120
Dividends payables to ordinary shareholders *(note 12(a))*	**11,806**	83
Share repurchase obligations	**–**	46,099
Other payables and accrued charges	**138,172**	147,478
	218,993	283,780

	At 30 June 2020	At 31 December 2019
	US$'000	*US$'000*
Non-current		
Share repurchase obligation *(Note)*	**276,294**	89,701
Defined benefit retirement obligation	**8,919**	9,046
Other payables	**25,203**	18,042
	310,416	116,789

Note:

During the six months period ended 30 June 2020, MP CardioFlow Cayman completed the series D financing (note 13(a)).

As at 30 June 2020, MP CardioFlow Cayman 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.

Movement of the preferred shares represents as follows:

	CardioFlow Series B Preferred Shares *US$'000*	**CardioFlow Series C Preferred Shares** *US$'000*	**CardioFlow Series D Preferred Shares** *US$'000*	**Total** *US$'000*
As at 1 January 2020	89,701	46,099	–	135,800
Issuance during the period, net of transaction costs	–	–	129,000	129,000
Charge to equity	4,044	–	–	4,044
Charge to finance costs *(note 5(a))*	–	3,327	4,123	7,450
As at 30 June 2020	93,745	49,426	133,123	276,294
Representing				
Non-current portion	93,745	49,426	133,123	276,294

As at 30 June 2020, these preferred shares were classified as non-current liabilities as the Group did not have any obligation to redeem these preferred shares within twelve months after the reporting period.

10 Interest-bearing borrowings

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

	At 30 June 2020 ***US$'000***	At 31 December 2019 *US$'000*
Within 1 year or on demand	**100,910**	32,092
After 1 year but within 2 years	**23,440**	57,606
After 2 years but within 5 years	**234,472**	230,501
	257,912	288,107
	358,822	320,199

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

	At 30 June 2020	At 31 December 2019
	US$'000	*US$'000*
Bank loans		
– secured	**165,449**	127,602
– unsecured	**193,373**	192,597
	358,822	320,199

At 30 June 2020, the bank facilities drawn down by the Group of US$85,481,000 (31 December 2019: US$43,753,000) were secured by pledged deposits, right-of-use assets, buildings held for own use/construction in progress and trade receivables with net book values of US$1,132,000, US$3,905,000, US$58,524,000 and US$4,294,000, respectively (31 December 2019: US$1,147,000, US$4,010,000, US$51,090,000 and nil, respectively).

At 30 June 2020, a bank loan of the Company amounting to US$79,968,000 (31 December 2019: US$83,849,000) borrowed in connection with the acquisition of CRM business was secured by buildings held for own use with net book values of US$60,418,000 and the equity interests of the Company's three subsidiaries and guaranteed by Shanghai MicroPort Medical (Group) Co., Ltd. The bank loan bears an interest rate of London Interbank Offered Rate ("LIBOR") plus 3.5% per annum and shall be repaid by instalments within five years since 30 April 2018.

11 Convertible bonds

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 2014 Convertible Bonds in the aggregate outstanding amount of US$84,410,468 were fully converted to 95,949,033 ordinary shares of the Company at a conversion price of HK$6.84 per share. As at 30 June 2020, the Group has no outstanding convertible bonds.

12 Capital, reserves and dividends

(a) Dividends

At the meeting of the board of directors of the Company (the "Board") held on 30 March 2020, the Board recommended the payment of a final dividend of HK$5.3 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 receiving new fully paid shares of the Company in lieu of cash. The 2019 Final Dividend was approved at the annual general meeting of the Company held on 18 June 2020. Accordingly, a liability of US$11,723,000 has been recognised as at 30 June 2020.

No interim dividend attributable to the interim period has been declared by the Company.

(b) Share option scheme of the Company (equity-settled)

Apart from the outstanding share options carried forward from 2019, during the six months ended 30 June 2020, a total of 1,763,222 share options were granted under the Company's share option scheme.

The amount payable by each grantee on acceptance of the offer for the option granted is US$1.00. These options granted will vest in instalments over the vesting period from 31 March 2021 to 31 March 2025, and will be exercisable until 30 March 2030. The exercise price is HK$17.54.

During the six months ended 30 June 2020, 17,818,500 share options of the Company were exercised (six months ended 30 June 2019: 1,220,000) with a weighted average exercise price of HK$3.66 (equivalent to approximately US$0.47) (six months ended 30 June 2019: HK$3.41 (equivalent to approximately US$0.49)) and the total number of ordinary shares of the Company increased by 17,818,500 for the six months ended 30 June 2020 (six months ended 30 June 2019: 1,220,000 ordinary shares).

(c) 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 six months ended 30 June 2020, the Company granted 19,924,925 shares (six months ended 30 June 2019: 10,399,854) at a fair value of US$39,899,000 (six months ended 30 June 2019: US$9,059,000) to the Group's executives and employees.

(d) Employee share purchase plan ("ESPP") (equity-settled)

Since 2014, the Group adopted several ESPPs, pursuant to which, the Group agreed to transfer partial equity interests in its subsidiaries to the partnership firms, whose limited partners consisted of employees of the Group. All participants of above ESPPs have purchased equity interests in respective partnership firms at amounts specified in the respective partnership agreements. The ESPPs all contain a service condition. Employees participating in the plan have to transfer out their equity interests if their employments with the Group or the Group's equity-accounted investees 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.

(e) Subsidiaries share option scheme and performance stock units (equity-settled)

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.

In March 2020, 4,135,750 share options were granted under the CardioFlow SOS. These options granted will vest in instalments and will be exercisable until 30 March 2030. The initial exercise price is US$3.2, which is subject to adjustments in accordance with terms and requirements of the agreement, including but not limited to that (i) alteration to the capital structure, arising from capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital in accordance with the legal requirements or requirements of the Stock Exchange and (ii) the exercise price of share options granted within six months before a lodgement of the listing application in the Stock Exchange shall be adjusted to the price not lower than the respective issue price of the initial public offering by MP CardioFlow Cayman.

During the six months ended 30 June 2020, MicroPort Cardiac Rhythm Management Limited ("MP CRM", the holding company of the Group's CRM business) has adopted a long-term incentive plan (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 six months ended 30 June 2020, the Group granted in aggregation 2,749,549 RSUs, of which, 2,399,983 and 349,566 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.

13 Disposals

(a) MP CardioFlow Cayman

In April 2020, the Group entered into agreements with several investors in relation to MP CardioFlow Cayman's series D financing, pursuant to which, these 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.

As at 30 June 2020, the Group's voting rights in MP CardioFlow Cayman were diluted to approximately 50.06% and retained control over MP CardioFlow Cayman.

As disclosed in note 9, the CardioFlow Series D Preferred Shares were treated as liabilities of MP CardioFlow Cayman. The amount of US$10,809,000, being the carrying amount of net assets in the proportion of the deemed disposed equity interest in MP CardioFlow Cayman as at the date of disposal, was credited to "capital reserve" account of the Group.

(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 MicroPort Orthopedics Scientific (Group) Co., Ltd. ("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 Shanghai Hopeway Biotechnology Co., Ltd. ("Hopeway Biotech") which pledged its equity interests in Suzhou MP Orthopedics as security for a loan from MicroPort (Shanghai) MedTech Investment Co., Ltd. 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.

As of 30 June 2020, the abovementioned equity transaction was completed. Such disposal of partial equity interest in Suzhou MP Orthopedics was treated as a transaction within its shareholders in their capacity as equity holders. Accordingly, the amount of US$47,681,000 being the difference between the cash contributions made by these investors of RMB574,057,000 (equivalent to US$80,685,000) and the carrying amount of net assets in proportion of the disposed equity interests in Suzhou MP Orthopedics as at the date of disposal was credited to capital reserve of the Group.

(c) Other transaction

During the six months ended 30 June 2020, partnership firms subscribed for newly issued share capital of MicroPort MedBot (Shanghai) Co., Ltd. ("MedBot") at a cash consideration of RMB46,240,000 (equivalent to US$6,500,000) under the Group's ESPP (see note 12(d)). After completion of the transaction, the Group's equity interest in MedBot would be decreased to 64.77%.

14 Non-adjusting events after the reporting period

(a) On 2 July 2020, the Company completed a placing of 65,598,000 new ordinary shares of the Company under general mandate at a price of HK$23.5 per share to several placees procured by a placing agent.

(b) On 3 July 2020, the Group entered into agreements with two investors in connection with the series B financing of MP CRM, pursuant to which, these investors agreed to subscribe for 28,252,054 series B preferred shares of MP CRM in the aggregate amount of US$75 million and the Group also subscribed for 15,113,303 series B preferred shares of MP CRM at a consideration of US$30 million.

(c) On 22 July 2020, certain investors including the Group agreed to contribute in aggregate RMB130 million to the capital of Shanghai Horizon Medical Technology Co., Ltd. ("Horizon Medical"), an equity-accounted investee of the Group. Upon the completion of the capital contribution, the Group's equity interest in Horizon Medical will increase from 40% to approximately 44%.

(d) On 24 July 2020, the Group entered into agreements with Hopeway Biotech and Shanghai Lianghong Enterprise Consulting Centre Limited Partnership ("Shanghai Lianghong"), pursuant to which, (i) Hopeway Biotech and Shanghai Lianghong agreed to contribute RMB115,000,000 and RMB35,000,000, respectively, to the capital of MicroPort NeuroTech (Shanghai) Co., Ltd. ("MP Neuro"); (ii) the Group agreed to provide a loan with a principal amount of RMB115,000,000 to Hopeway Biotech; and (iii) the Group agreed to continue to supply raw materials, including medical devices and equipment, to MP Neuro. Upon the completion of the capital contribution, the Group's equity interest in MP Neuro will be diluted from 83% to approximately 69.89%.

(e) On 5 August 2020, certain investors agreed to contribute an aggregate amount of RMB300 million to the capital of Shanghai MicroPort EP Medtech Co., Ltd. ("MP EP", an equity-accounted investee of the Group). Upon the completion of the capital contribution, MP EP would be still the Group's equity-accounted investee.

III. MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

Overview

The first half of 2020 saw the COVID-19 pandemic spread around the world, with many countries and regions being affected to various extent. While the prevention, control, diagnosis and treatment of COVID-19 stimulated demand in the global medical industry, outpatient visits and elective surgeries except for COVID-19 treatment were postponed, negatively impacting some industries.

In China, the government introduced reform policies to support the healthy and orderly development of the medical industry. The Central Committee of the CPC and the State Council issued "Opinions on Deepening the Reform of the Medical Security System", calling for the incorporation of drugs, diagnosis and treatment items, and medical consumables with high clinical value and good economic evaluation into the scope of medical insurance payment, continued reform of centralised volume-based procurement of medical consumables, adherence to a combination of bidding with purchasing, a linking of price with volume and full implementation of volume-based procurement of medical consumables, reflecting the trend of centralised purchasing and negotiation in the field of high value consumables, in which evidence of value in clinical and health economics will play an important role. Since July 2019, various regions of China have implemented a pilot policy for volume-based procurement of consumables to maintain a fair and competitive market environment in the context of value purchasing and quality assurance. This will accelerate the optimization of resource allocation and consolidation of the industry, from which the leading companies with scale advantages, advanced technology and leading innovations are expected to benefit. Additionally, the Office of the National Medical Security Administration issued the "Medical Security Disease Diagnosis Related Groups (CHS-DRG) Subdivision Group Plan (Version 1.0)", which further subdivides the 376 core DRG (ADRG) groups in the "National Medical Security Administration DRG (CHS-DRG) Group Plan" into 618 subgroups. In the future, the implementation of DRG will change the existing medical payment methods and will benefit enterprises that manufacture high-quality products at a favorable price.

In the overseas markets, market competition has intensified. Various countries or regions imposed higher requirements on the product performance, quality, clinical evidence and other aspects. This will help those enterprises who have established overseas presence, focused on the research and development of new products and built multi-layered product portfolios to enhance their overall market competitiveness in the global market.

During the first half of 2020, the Group responded to the COVID-19 pandemic by adopting strong and effective measures and maximising the integration and allocation of market resources for pandemic prevention and control for the countries and communities where the Group is located to fulfill the social responsibilities of a corporate citizen. During the Reporting Period, the Group continued its research and development and clinical projects, with several key products obtaining registration certificates. Besides, the financings from the capital market help the Group to accelerate the business expansion and long-term development of the existing business segments, thus building and enhancing the overall competitive strength of the Group. During the Reporting Period, with major business segments at home and abroad impacted by the pandemic, the Group realised a revenue of US$306.9 million, representing a decrease of 21.8% compared with the same period of 2019, or a decrease of 19.7% excluding the impact of foreign exchange. Recorded loss for the period was US$68.8 million (loss attributable to the equity shareholders: US$65.6 million).

Segment Review

Cardiovascular Devices Business

In recent years, interventional treatment of coronary artery disease in China has continually improved, and the number of hospitals that can perform operations has increased year by year. In particular, county hospitals are increasingly playing a key role in the treatment of coronary artery disease. In terms of product consumption, China has become a major PCI country globally, despite a relatively large gap in the number of PCI cases per million population between China and developed countries. With the implementation of centralised volume-based procurement policies for coronary stents in various provinces and cities, the industry is gradually becoming integrated and dominated by leading enterprises. Due to the COVID-19 pandemic, in the first quarter of 2020, only emergency operations were reserved for coronary stent surgeries in China, and a small number of hospitals performed operations normally. As the pandemic stabilised during the second quarter, outpatient visits across the country rebounded rapidly.

During the Reporting Period, the Group recorded revenue of US$88.4 million for its cardiovascular devices business, representing a decrease of 29.1% compared to the corresponding period of 2019 (excluding the impact of foreign exchange). In China, as affected by the pandemic, revenue from drug-eluting stents reached bottom in February, but increased significantly on a monthly basis since March. During the period, the Group explored new markets and continued to increase the penetration of all levels of products in the market. As of 30 June 2020, the Group's drug-eluting stents covered more than 2,200 hospitals nationwide, among which Firehawk™ Coronary Rapamycin Target Eluting Stent System ("Firehawk™") and Firebird2™ Rapamycin-Eluting CoCr Coronary Stent System ("Firebird2™") covered 109 and 90 new hospitals respectively in the first half of the year.

With the gradual improvement of county hospitals' PCI capabilities, the Group has also cooperated with a well-known medical technology company to develop made-in-China medical angiography X-ray machines to increase coverage in county areas, and covered 117 new county hospitals during the Reporting Period. Successful centralised procurement bids in some regions drove sales growth, further optimised the product mix, and consolidated the Group's leading position in the market. The Group also made further upgrades of existing products. The FireCondor™ Rapamycin Target Eluting Coronary Stent System with improved delivery system was widely praised by doctors, while the upgraded Firekingfisher Rapamycin-Eluting CoCr Coronary Stent System obtained a registration certificate in July 2020. The Group was also developing a variety of accessory products to create a multi-level product portfolio. This will enhance the overall capacities of the Group's PCI interventional products and lead to the provision of accessible, high-quality and integrated medical solutions.

In the overseas markets, the first quarter recorded favorable performance, yet the beginning of the second quarter was affected by the pandemic. Therefore, revenue from the international drug-eluting stent business decreased by 12.0% (excluding the impact of foreign exchange) compared with the same period of the previous year, but sales growth was still recorded in countries and regions where the COVID-19 pandemic was properly managed. The overall revenue from Firebird2™ grew steadily year-on-year (excluding the impact of foreign exchange). During the Reporting Period, the Group actively pursued market access in various regions around the world, with drug-eluting stents obtaining registration certificates in 4 countries or regions and Firehawk™ achieving sales in over 30 countries and regions.

The global revenue of balloon products decreased slightly by 0.2% year-on-year (excluding the impact of foreign exchange). Firefighter™ NC Balloon Catheter received extensive positive feedback after its launch. Balloon products are sold in 17 overseas countries and regions.

Orthopedic Devices Business

During the Reporting Period, elective surgeries were postponed and the orthopedics business was affected at home and abroad due to the COVID-19 pandemic. The orthopedics devices business realised revenue of US$86.6 million, representing a year-on-year decrease of 22.8% (excluding the impact of foreign exchange). In response to the pandemic situation, the Group coordinated the orthopedics business's global R&D team and resources, enriched the existing product portfolio and instrument application, used online marketing to strengthen the brand and product concept promotion, and accelerated the process of localisation. At the same time, based on investors' confidence in orthopedics products, strategic layout and expectations of huge growth potential in the future, the orthopedics devices business raised RMB580 million and attracted a number of well-known strategic investors, which will provide necessary funding support to the Group's new product development and market expansion, and drive the orthopedics business to a new stage of rapid growth.

During the Reporting Period, the international (non-China) orthopedics business recorded revenue of US$76.8 million, representing a decrease of 24.2% compared to the same period last year (excluding the impact of foreign exchange). Almost all overseas regions showed higher-than-expected momentum at the beginning of the year. But the overall business performance was later affected by the pandemic. There were signs of recovery since May, and North America recorded growth in June as compared with the same month last year. During the pandemic, the Group completed the design, development and submission of registration of several new products. Among these, GLADIATOR™ cementless femoral stems obtained FDA approval in the United States, and the PROCOTYL™ P acetabular cup system obtained CE certification in the European Union. The new generation Evolution™ NitrX™ Medial-Pivot Knee for patients allergic to certain metal ions was certified and launched in the United States and Canada in 2019, and obtained EU CE certification in the first half of 2020. ICE instruments for supporting the EVOLUTION™ total knee replacement system were also launched globally, and will help to further reduce costs. The Group also launched the Anterior PATH™ minimally invasive surgical technique for the very first time, serving as an effective supplement to the Group's SuperPATH™ minimally invasive posterior approach to total hip replacement, and will be promoted together with existing hip joint products.

During the Reporting Period, the orthopedics business in China recorded revenue of US$9.8 million, representing a decrease of 12.0% over the same period last year (excluding the impact of foreign exchange). This was mainly due to delays of elective surgeries. In response to the rapid development of domestic orthopedics medical devices, the Group obtained two made-in-China knee joint registration certificates in 2019. Sales of these products increased rapidly after their launch. The made-in-China Goral™ Total Hip Arthroplasty System ("Goral™ System") also obtained a registration certificate during the first half of the year, and officially launched clinical implants, further diversifying the existing product portfolio and accelerating the localisation process. The steady growth in revenue from the spine and trauma business was mainly due to the launches of the Piscis™II Interbody Fusion System and the Takin™II Canulated Spine Minimal Invasive System in China bringing new driving forces, which further increased the number of hospitals covered. Growth was maintained in the orthopedic instrument business during the same period, helping to further reduce costs. Meanwhile, the Group trial-produced Hybrid ICE knee joint instruments for the overseas orthopedics business, supported CE registration, and developed sports medicine devices. The Global Supply Center (GSC) maintained stable operations for global instrument supply and reduced instrument costs through the effective allocation of global resources.

Cardiac Rhythm Management Business

During the Reporting Period, the CRM device business realised revenue of US$82.7 million, representing a decrease of 20.2% (excluding the impact of foreign exchange) as compared with the corresponding period last year. Though many regions around the world were affected by COVID-19, R&D projects proceeded in an orderly manner and growth was achieved in the number of implanted domestic pacemakers. In July 2020, the Group raised US$105 million to fund for the CRM device business, which will be used to accelerate implementation of the development plan for the clinical application of world-class CRM products, treat more patients, and create more growth catalysts for a sustained development of the business segment.

During the Reporting Period, the international (non-China) CRM device business realised revenue of US$79.9 million. In January and February of 2020, the performance was stable and positive. From mid-March, COVID-19 imposed severe challenges. Thus revenue decreased by 20.3% over the same period last year (excluding the impact of foreign exchange). The Group responded to the pandemic by conducting online academic conferences, organising online sales training, and pushed forward its research and development projects, making substantial progress including the release of preclinical results of animal models for the innovative ultra-thin left ventricular lead Axone™, the start of preclinical research for the Invicta™ defibrillation lead, submission of CE registration information for the new generation of pacemakers with Bluetooth technology and wireless remote monitoring function, including the Alizea™, Borea™ and Celea™ projects.

During the Reporting Period, the CRM device business in China realised revenue of US$2.8 million, representing a decrease of 16.0% (excluding the impact of foreign exchange) as compared with the corresponding period last year. Although the implantations during the first quarter were affected by the postponement of elective surgeries, the second quarter started to see recovery, with monthly implantations increasing steadily. This was mainly attributable to improved brand recognition and consumer trust in world-class high-quality domestic pacemakers. The Group's continued development of new hospitals also increased implantations and further accelerated domestic production since its launch as well as dominated the market in domestic products. Clinical applications of the Beflex™ active pacing lead were speeded up, which contributed additional revenue for this segment. In terms of product R&D, the Group submitted registration information for the Kora 100 pacemaker with out-of-chest MRI compatibility.

Endovascular and Peripheral Vascular Devices Business

During the Reporting Period, the Group's endovascular and peripheral vascular devices business recorded revenue of US$30.5 million, reflecting a stable year-on-year growth of 25.0% (excluding the impact of foreign exchange). Thoracic aorta products maintained a relatively rapid growth in revenue as thoracic aorta operations were mainly emergency operations and the COVID-19 impact was relatively mild. Revenue from sales of abdominal aorta products declined due to the pandemic, as abdominal aorta operations were mainly elective ones. During the Reporting Period, Castor™ Branched Aortic Stent-Graft System ("Castor™") – the world's first thoracic branch stent – maintained rapid growth with its outstanding clinical performance and application in more than 400 hospitals across China. The Minos™ Abdominal Aortic Aneurysm and Delivery System ("Minos™") steadily accelerated the process of bidding and entering hospitals since its launch. In addition, in the field of peripheral arterial diseases treatment the Group's Reewarm™ PTX drug balloon dilatation catheter obtained an National Medical Products Administration ("NMPA") registration certificate and is set to make an additional contribution to sales. After obtaining EU CE certification in 2019, Minos™ completed its first clinical implantation in multiple countries overseas during the Reporting Period. The Hercules™ Low Profile Aneurysm and Delivery System also obtained EU CE certification, which further improved this segment's international business product line.

Neurovascular Devices Business

During the Reporting Period, the Group's neurovascular devices business recorded revenue of US$10.9 million, representing a year-on-year decrease of 9.0% (excluding the impact of foreign exchange). This was mainly due to the fact that common diagnosis and treatment operations with neurovascular devices severely contracted since the COVID-19 outbreak and sales of the Apollo™ intracranial artery stent system declined. The Tubridge™ vascular reconstruction device ("Tubridge™") continued to expand its market coverage and is currently used by approximately 130 hospitals. The Fastrack™ microcatheter system ("Fastrack™") was licensed on the market in 2019 and subsequently launched in several provinces and cities. Several products under development will further enrich the neurovascular devices line in the future.

Heart Valve Business

During the Reporting Period, the heart valve business recorded revenue of US$5.2 million. The Group continued to implement targeted sales plans and market strategies to promote the launch of VitaFlow™ in various provinces and cities, and facilitate its business development in new hospitals, especially medium and large hospitals and the number of hospitals covered increased rapidly. Certain hospitals or departments currently only adopt the Group's products, demonstrating our competitive advantage and wide recognition by industry experts and doctors. The Group also organised several online academic conferences to enhance the academic influence of its heart valve products.

The Reporting Period saw the completion of a new series of financing of US$130 million for the heart valve business and the participation of a number of investors. The new financing will bring more resources for the R&D, production and market expansion of its heart valve business, and further enhance the segment's competitiveness.

Surgical Robot Business

During the Reporting Period, through independent research and development and overseas investment, the Group made gradual progress in building a multi-field surgical robot group with global presence and the ongoing projects have advanced as planned. In the field of surgery with conventional endoscopy, the Group's self-developed DFVision™ 3D Electronic Laparoscope entered the special approval procedure for innovative medical devices ("Green Path") and launched clinical trials for registration in 2019. The preparation of information for registration started in the first half of the year. In the field of surgery with laparoscopic robots, the Group's self-developed Toumai™ Laparoscopic Surgical Robot also entered the Green Path and launched clinical trials for registration in 2019. The clinical trial was ongoing during the first half of the year. In joint replacement, 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, marking the first-in-man ("FIM") clinical trial of Skywalker™ to be enrolled for the first time. Upon its launch, the product will improve the Group's overall industrial plan in the field of orthopedics by virtue

of the most cutting-edge treatment concepts and advanced instruments, and the Group's unique medial-pivot knee design concept, and with its core advantages in innovative design and industry-leading manufacturing capabilities, it will provide more high-quality and comprehensive orthopedic medical solutions to patients worldwide. As to natural cavity surgery, the Group has completed the first robot-assisted bronchoscopy alveolar lavage was completed during the Reporting Period for the diagnosis and treatment of COVID-19. It can physically isolate medical staff from the surgical infection environment through remote control, reduce the risk of medical staff infection, and help improve the diagnosis and cure rates. Additionally, the Group further expanded its robotics business territory through investment. In the field of vascular interventional surgery, the Group invested in Robocath, a vascular interventional robot company, with which it will establish a joint venture in China for distribution, manufacturing and localisation development in the greater China region. The Group also invested in NDR Medical Technology Private Limited, a percutaneous navigation robot company, to further accelerate the Group's presence in the fields of respiratory and urinary intervention.

Progress in Major Research and Development

A total of 4 Class III medical device products gained NMPA approval up to now and two entered the Green Path. Since the establishment of Green Path, a total of 20 products under the Group or its related companies have been approved to enter as at 30 June 2020. The Group also has several products that have obtained certification in the international market.

For the cardiovascular devices business, Firekingfisher Rapamycin-Eluting CoCr Coronary Stent System with upgraded delivery system on the basis of Firebird2™ obtained NMPA approval in July 2020. The Group has a number of upgraded products under development to enrich the product line and better meet market needs. Paclitaxel drug-coated balloon, rapamycin drug-coated balloons and rotational atherectomy catheter are also under development. In the overseas markets, the Group obtained 17 registration certificates in 8 countries or regions in the first half of the year, continuously expanding its global business footprint. During the PCR e-Course hosted by the organizers of EuroPCR 2020, the Company 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 its Firehawk™ stent. The results proved that Firehawk™ can achieve identical clinical efficacy and safety with the first-in-class drug eluting stent with proven large body of medical evidence in the world. The over one-year target lesion revascularisation failure ("TLF") rates were lower and similar in both groups, and the very late stent thrombosis rates in this real-world population study were lower in Firehawk™ group. Two-year data for the DAPT subgroup of TARGET AC study showed that the TLF rate in the DAPT interrupted treatment subgroup in the Firehawk™ group showed a lower trend than the control group. The three-year follow-up data of TARGET AC clinical trial was published online in EuroIntervention, an international medical journal.

In respect to the orthopedics devices business, in the field of joints and overseas markets, the GLADIATOR™ cementless Femoral Stems obtained FDA approval, the PROCOTYL™ P acetabular cup system has obtained the European Union CE certification. The Group made further advancements to the PRIME™ Acetabular Cup system with the submission of the multi-hole version of the shell along with a constrained liner to FDA for review. A variety of femoral heads of PROFEMUR™ TL2 femoral stems obtained CE certificates. In addition, the group also launched the Anterior PATH™ minimally invasive surgical technique. The new generation Evolution™ NitrX™ Medial Pivot Knee for patients with allergies to certain metallic ions also obtained the EU CE certification. For the Evolution™ total knee replacement system, the Group introduced supporting ICE tools to reduce costs. For the PRC market, the made-in-China Goral™ Total Hip Arthroplasty System obtained a NMPA registration certificate. The system can be used in combination with the Company's unique SuperPATH™ total hip arthroplasty and showed excellent clinical results, and completed the first case during the reporting period. In July 2020, the Group's self-developed Tibia Resection Alignment System won a Reddot Award 2020 Best of the Best. The system features newly designed artificial knee replacement surgical instruments to help doctors perform tibial osteotomy alignment more quickly, and to accurately adjust the joints' position for better postoperative 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. In the field of sports medicine, Omnicuff™, the new generation of rotator cuff repair instruments under MinInvasive invested by the Group, obtained a NMPA registration certificate in July 2020.

In the CRM business, 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 has 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. Axone™'s diameter is just one-quarter of that of the standard left ventricular lead on the market, making it more conducive to passing through very narrow and tortuous veins. It is expected to provide a more optimal cardiac resynchronisation treatment solution for patients with heart failure. Invicta™ defibrillation lead has initiated preclinical studies. The new generation pacemakers equipped with Bluetooth technology and wireless remote monitoring functions, namely Alizea™, Borea™ and Celea™ , have submitted CE registration data.

In the neurovascular devices business, the Tigertriever™ clot retriever ("Tigertriever™") of Rapid Medical invested by MP Neuro, a subsidiary of the Group, has entered the Green Path. There is no similar clot retrieval product currently in the China market, and MP Neuro will be entitled to exclusive dealership rights for Tigertriever™ in greater China. MP Neuro's self-developed clot retriever is also at the clinical stage. In the future, MP Neuro's will implement a dual product combination strategy. Through more comprehensive product specifications and a wider range of lesion locations, it will provide doctors and patients with more choices and create an integrated neurovascular solution.

In the endovascular devices business, the Group's self-developed Reewarm™ PTX Drug Balloon Dilation Catheter m obtained an NMPA registration certificate, and the Hercules™ Low Profile Aneurysm and Delivery System obtained EU CE certification.

In the heart valve business, the Group's self-developed VitaFlow™ Transcatheter Aortic Valve and its Delivery System ("TAVI") ("VitaFlow™") obtained a certificate for launch in July in Argentina and was approved for a global market launch. The Group released the first three-year clinical data for VitaFlow™ applicable to patients with severe aortic valve calcification in China. The data showed that compared with clinical studies of other products, its all-cause mortality was significantly lower, and the severe vascular complication rate was significantly lower in the severe group. The three-year clinical data confirmed the safety and efficacy of VitaFlow™ for the treatment of patients with severe aortic calcification.

In the surgical robot business, the Group's self-developed Skywalker™ Orthopedic Surgery Navigation and Positioning System entered the Green Path and completed its first robot-assisted total knee replacement surgery, marking the first-in-man ("FIM") clinical trial of Skywalker™ to be enrolled for the first time.

2. Financial Review

Overview

Faced with an increasingly fierce competition in the rapidly growing medical device industry in China and abroad and the impact of the COVID-19 pandemic, the revenue of the Group decreased by 21.8% in US$ for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019. The Group continued to provide a diversified product portfolio and pursue the Group's globalization strategy with non-China sales contributing 56.0% 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$'000	**Six months ended** **30 June 2020**	30 June 2019	Percent change in US$	Percent change excluding the foreign exchange impact
Cardiovascular devices business	**88,369**	129,067	(31.5%)	(29.1%)
Orthopedics devices business	**86,619**	113,430	(23.6%)	(22.8%)
CRM business	**82,699**	106,579	(22.4%)	(20.2%)
Endovascular and peripheral vascular devices business	**30,549**	25,567	19.5%	25.0%
Neurovascular devices business	**10,916**	12,399	(12.0%)	(9.0%)
Heart valve business	**5,155**	–	n.a.	n.a.
Surgical devices business	**2,139**	2,142	(0.1%)	4.1%
Other business *(*Note)*	**476**	3,423	(86.1%)	(85.1%)
Total	**306,922**	392,607	(21.8%)	(19.7%)

**Note:*

1. Other business did not meet the quantitative thresholds for determining reportable segments. For the six months ended 30 June 2019, revenue of other business was attributable to electrophysiology devices business. MP EP was restructured in 2019 whereby the Group ceased to control over MP EP which became an equity-accounted investee of the Group.

The Group's revenue for the six months ended 30 June 2020 was US$306.9 million, decreasing by 21.8% compared to US$392.6 million for the six months ended 30 June 2019. The Group's reported revenue was impacted by translation from functional currencies of the Group's subsidiaries to US$, 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 19.7%. Such decrease was primarily driven by the impact of the COVID-19 pandemic, which resulted in the postponement of outpatient visits and surgeries in medical institutions, hence the decrease of the Group's revenue as compared to the six months ended 30 June 2019. 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$88.4 million for the six months ended 30 June 2020, representing a decrease of 29.1% excluding the foreign exchange impact or a decrease of 31.5% in US$ compared to the six months ended 30 June 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.

– ***Orthopedics Devices Business***

	Six months ended		**Percent change**	
US$'000	**30 June 2020**	30 June 2019	in US$	excluding the foreign exchange impact
Orthopedics Devices Business	**86,619**	113,430	(23.6%)	(22.8%)
– US	**36,448**	45,107	(19.2%)	(19.2%)
– *Europe, Middle East and Africa*	**15,885**	29,131	(45.5%)	(44.5%)
– Japan	**16,841**	17,743	(5.1%)	(6.5%)
– the PRC	**9,824**	11,547	(14.9%)	(12.0%)
– *Others*	**7,621**	9,902	(23.0%)	(20.0%)

The Group's orthopedics devices business recorded a revenue of US$86.6 million for the six months ended 30 June 2020, representing a decrease of 22.8% excluding the foreign exchange impact or 23.6% in US$ compared to the six months ended 30 June 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$'000	**Six months ended** **30 June 2020**	30 June 2019	Percent change in US$	Percent change excluding the foreign exchange impact
CRM Business	**82,699**	106,579	(22.4%)	(20.2%)
– US	**442**	1,307	(66.2%)	(66.2%)
– Europe, Middle East and Africa	**74,689**	92,813	(19.5%)	(18.0%)
– Japan	**3,376**	5,845	(42.2%)	(44.3%)
– the PRC	**2,830**	3,481	(18.7%)	(16.0%)
– Others	**1,362**	3,133	(56.5%)	(23.9%)

CRM business recorded a revenue of US$82.7 million for the six months ended 30 June 2020, representing a decrease of 20.2% excluding the foreign exchange impact or 22.4% in US$ over the six months ended 30 June 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$30.5 million for the six months ended 30 June 2020, representing a growth of 25.0% excluding the foreign exchange impact or a growth of 19.5% in US$ compared with the six months ended 30 June 2019. Such growth was mainly attributable to the following factors: (i) the Group's main products, Hercules™ Low Profile 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$10.9 million for the six months ended 30 June 2020, representing a decline of 9.0% excluding the foreign exchange impact or a decline of 12.0% in US$ compared to the six months ended 30 June 2019. Such decrease was mainly attributable to the contraction of elective common diagnosis and treatment operations due to the impact of the COVID-19 pandemic, resulting in a year-on-year decrease in the number of implants.

– ***Heart Valve Business***

The Group's heart valve business recorded a revenue of US$5.2 million for the six months ended 30 June 2020.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$2.1 million for the six months ended 30 June 2020, representing a growth of 4.1% excluding the foreign exchange impact or a decline of 0.1% in US$.

– ***Other Business***

The Group's other business recorded a revenue of US$0.5 million for the six months ended 30 June 2020, representing a decrease of 85.1% excluding the foreign exchange impact or a decrease of 86.1% in US$ compared to the six months ended 30 June 2019. Other business did not meet the quantitative thresholds for determining reportable segments.

Cost of Sales

For the six months ended 30 June 2020, the Group's cost of sales was US$89.3 million, representing a 19.5% decrease as compared to US$111.0 million for the six months ended 30 June 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$281.6 million for the six months ended 30 June 2019 to US$217.6 million for the six months ended 30 June 2020. Gross profit margin is calculated as gross profit divided by revenue. The Group's gross profit margin decreased to 70.9% for the six months ended 30 June 2020 as compared to 71.7% for the six months ended 30 June 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.

Other Net Income

The Group recorded other net income of US$30.8 million for the six months ended 30 June 2020, representing a 257.7% increase as compared to US$8.6 million for the six months ended 30 June 2019. The increase was mainly attributable to (i) the increase in government grant; (ii) refund from an arbitration over the purchase price for the acquisition of the CRM business from LivaNova in 2018. In March 2020, the arbitrator appointed by the Group and LivaNova determined that LivaNova shall refund a total of approximately US$16.4 million 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 six months ended 30 June 2020.

Research and Development Costs

Research and development costs increased by 7.1% from US$68.0 million for the six months ended 30 June 2019 to US$72.8 million for the six months ended 30 June 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 11.5% from US$126.5 million for the six months ended 30 June 2019 to US$112.0 million for the six months ended 30 June 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.

Administrative Expenses

Administrative expenses increased by 64.8% from US$55.0 million for the six months ended 30 June 2019 to US$90.6 million for the six months ended 30 June 2020. The increase was mainly attributed 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 64.0% from US$5.9 million for the six months ended 30 June 2019 to US$9.6 million for the six months ended 30 June 2020. The increase was mainly due to the increased professional fees.

Finance Costs

Finance costs increased from US$9.6 million for the six months ended 30 June 2019 to US$16.1 million for the six months ended 30 June 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.

Income Tax

Income tax decreased from US$26.4 million for the six months ended 30 June 2019 to US$13.6 million for the six months ended 30 June 2020, which was primarily due to the decrease in profit before tax.

No deferred tax assets were recognised for certain loss-making subsidiaries as at 30 June 2020.

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 loans or issuance of equity or convertible bonds.

Liquidity and Financial Resources

As at 30 June 2020, the Group had US$471.3 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 introduction of new strategic investors and the completion of a new round of equity financing in the heart valve 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 was US$358.8 million as of 30 June 2020 and US$403.3 million as of 31 December 2019. As of 30 June 2020, the gearing ratio of the Group, calculated as total bank borrowings and convertible bonds divided by total equity, decreased to 46.1% from 61.7% as at 31 December 2019.

Net Current Assets

The Group's net current asset as at 30 June 2020 was US$579.8 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 Japanese yen). For the six months ended 30 June 2020, the Group recorded net exchange loss of US$1.4 million, as compared to a net exchange gain of US$0.02 million for the six months ended 30 June 2019. The Group has been actively monitoring its foreign exchange risk and implemented relevant hedging arrangements to manage foreign exchange risk.

Capital Expenditure

During the six months ended 30 June 2020, the Group's total capital expenditure amounted to approximately US$64.2 million, which was used in (i) construction of building; (ii) acquiring equipment and machinery and (iii) expenditures for research and development projects in development stage.

Charge on Assets

As at 30 June 2020, the Group had set pledge on bank deposits and mortgage on its right-of-use assets, buildings held for own use and trade receivables for securing bank loans with a carry value of US$85.5 million.

As at 30 June 2020, a bank loan amounting to US$80.0 million in connection with the acquisition of the CRM Business was secured by buildings held for own use and the equity interests of the Company's three subsidiaries and guaranteed by MP Shanghai.

Interim Dividend

The Directors do not recommend the payment of an interim dividend to the Shareholders for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

3. Human Resources and Training

As of 30 June 2020, the Group had 6,707 employees, of whom 1,715 or 25.6% were overseas employees in the Asia Pacific region, Europe, the Middle East, Africa, North America and Australia. The expansion of the Group's global footprint will contribute to its future growth and increase the diversity of its workforce.

In 2020, the Group launched the "C-999" job certificate project based on the job position management system (the two-way eighteenth-level employee career development tower and the job competency model). The project detailed the specific training needs of employees of different ranks and functions, and through more targeted training plans, effectively helped employees accelerate their growth in their positions to ensure the effective implementation of the corporate talent strategy.

4. Prospects

As a leading, innovative high-end medical device group, the Company will strive to implement its globalisation and diversification strategies and continue to innovate, optimise and improve its existing product line. The Company will vigorously lead its way in domestic production and provide more innovative high-end medical solutions for patients.

IV. SUPPLEMENTAL INFORMATION

Purchase, Sale or Redemption of Listed Securities of the Company

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the requirements as set out in the Model Code throughout the period of the six months ended 30 June 2020.

Compliance with the Code on Corporate Governance Practices

Throughout the period of the six months ended 30 June 2020, except for the deviation as noted below, the Company had complied with all the applicable code provisions (the "Code Provisions") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Dr. Zhaohua Chang ("Dr. Chang") has assumed the responsibility of the executive Director and the chairman of the Company and is responsible for managing the Board and the Group's business. As the Board considers that Dr. Chang has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently, he has also assumed the position of the chief executive officer of the Company. Nevertheless, the Board will continue to review the 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.

Independent Review of Auditor

The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements No. 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the Shareholders.

Audit Committee and Review of Financial Statements

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

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020 and considered that the results complied with relevant accounting standards, rules and regulations and appropriate disclosure have been duly made.

Disclosure of Information

The interim report of the Group for the six months ended 30 June 2020 containing all the relevant information required by the Listing Rules will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.microport.com), in accordance with the Listing Rules in due course.

Other

Set out below is a breakdown of the other operating costs of the Company for the year ended 31 December 2019:

	2019 *USD'000*
Legal and professional fee	5,289
Redundancy cost	1,887
Donations	780
Others	582
Total	8,538

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

Shanghai, the PRC, 27 August 2020

As at the date of this announcement, the executive Director is Dr. Zhaohua Chang; the non-executive Directors are Mr. Norihiro Ashida, Dr. Yasuhisa Kurogi and Mr. Hongliang Yu; and the independent non-executive Directors are Mr. Jonathan H. Chou, Dr. Guoen Liu, and Mr. Chunyang Shao.

* *for identification purpose only*