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You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements as included in Appendix I to this document, which were prepared in accordance with HKFRS, together with the accompanying notes. The following discussion and analysis include forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements due to various factors, including those set forth in the sections headed “Forward-Looking Statements”, “Risk Factors” in this document and elsewhere in this document.

OVERVIEW

We are a major global medical device manufacturer specialized in interventional instruments for PCI/PTA procedures. The PCI and PTA markets are niche, small and concentrated markets. According to the CIC Report, we are a major player of PCI/PTA balloon markets in each of the following geographical markets in terms of sales volume in 2021:

PCI Balloon Market:

- Japan – Ranked No. 2 with a 20% market share
- Europe – Ranked No. 4 with a 11% market share
- PRC – Ranked No. 6 with a 8% market share
- U.S. – Ranked No. 6 with a 3% market share

PTA Balloon Market:

- Japan – Ranked No. 3 with a 13% market share
- U.S. – Ranked No. 4 with a 12% market share

Headquartered in Hong Kong, China, we sell products to over 70 countries and regions worldwide, and we are also the only PCI balloon manufacturer headquartered in China that ranked among the top 6 players in all major overseas PCI balloon markets including Japan, Europe and the U.S. In addition to PCI/PTA balloons, we also specialize in coronary stent products and are actively expanding into neuro vascular intervention and structural heart disease areas.

The coronary interventional instruments market in the PRC, the U.S. and Europe is expected to grow from 2021 to 2025 at a CAGR of 14.0%, 13.1% and 10.0%, respectively, while the peripheral interventional instruments market in the PRC, the U.S. and Europe is expected to grow from 2021 to 2025 at a CAGR of 14.6%, 11.9% and 9.2%, respectively. We strategically focus on these fast-growing markets as well as large established markets such as Japan, and the sales volume of our PCI balloon products globally reached approximately 866,000 units in 2021, ranking top six amongst all global cardiovascular interventional instrument developers and manufacturers in Japan, Europe, the U.S. and the PRC. We have also expanded the geographical coverage of our products to over 70 countries and regions in six continents as of June 30, 2022. Our long operating history, high quality products and wide geographic reach have formed a well-established reputation and brand recognition of the “OrbusNeich” and “業聚” brands in our target markets globally.

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Our diversified product portfolio covers all major treatment processes in PCI and PTA procedures. Our approved and marketed products are indicated for lesion access, lesion preparation, lesion therapy and lesion optimization, encompassing semi-compliant balloons and scoring balloons for pre-dilatation and lesion preparation, coronary stents for implantation, non-compliant balloons for post-dilatation, and specialty catheters. In particular, we focus on developing innovative products with high performances, which enable us to meet the physicians’ and patients’ clinical needs and to benefit from first-mover advantages. As of the Latest Practicable Date, we own more than 100 granted patents globally across key jurisdictions, including 32 and 45 granted patents in the U.S. and in the PRC, respectively. Our strong in-house R&D capabilities with over twenty years of accumulated product development experience and continued investment in R&D activities empowered us with abundant proprietary know how in product design, material treatment, manufacturing processes, and enabled us to successfully develop various proprietary technologies, including our worldleading antibody coating technology that features the “pro-healing” function and has been applied to our COMBO and COMBO Plus dual therapy stent products. We are also developing the second generation of such antibody coating technology and intend to apply it in a wider spectrum of medical devices. As of June 30, 2022, we had a robust pipeline consisting an around 40 products under development.

We maintain an established global sales network which consists of both distributorship and direct sales. As of June 30, 2022, our sales network covered over 70 countries and regions worldwide, among which we also built our direct sales force in the Mainland China, Hong Kong, Macau, Japan, Malaysia, Singapore, Germany, France, Switzerland and Spain. Our global distributor network consists of approximately 207 distributors as of June 30, 2022. For the six months ended June 30, 2022, sales generated from our distributors around the world was US\$35.2 million, representing 51.1% of our total revenue in such period. Our experienced and dedicated global sales and marketing team is in charge of managing our distributor network. In addition, our in-house sales and marketing team also leverages our knowledge base and relationship with hospitals and key opinion leaders to promote and sell our products directly to hospital customers. Our direct sales team covered an aggregate of nine countries/regions as of June 30, 2022 and works closely with each other to facilitate physician education and product promotions among different jurisdictions. For the six months ended June 30, 2022, sales generated from our direct sales was US\$33.6 million, representing 48.9% of our total revenue in such period.

Our production facilities in Shenzhen, the PRC and Hoevelaken, the Netherlands are equipped with advanced equipment that are either customized based on our design input or purchased from renowned suppliers, which enabled us to manufacture all of our self-developed products in-house. For the six months ended June 30, 2022, our production facilities in the PRC and the Netherlands have an aggregate annualized production capacity of approximately 1,352,000 units of balloon products and approximately 56,400 units of stent products per year, thereby enabling us to supply large-scale and stable high-quality products to customers around the world.

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BASIS OF PRESENTATION

Immediately prior to and after the our Reorganization, we conducted our business through OrbusNeich Medical Group Limited and its subsidiaries (collectively, the “[REDACTED]”). Pursuant to the Reorganization, the [REDACTED] was transferred to and held by our Company.

Our Company has not been involved in any other business prior to the Reorganization and do not meet the definition of a business. The Reorganization is merely a reorganization of the [REDACTED] with no change in management of such business and the ultimate owners of the [REDACTED] remain the same. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the [REDACTED] conducted through our Company and its subsidiaries.

For the purpose of this document, our financial information has been prepared and presented as a continuation of the consolidated financial information of the [REDACTED], with the results, assets and liabilities recognized and measured at the carrying amounts of the [REDACTED] under the consolidated financial statements for all the years/periods presented.

Inter-company transactions, balances and unrealized gains/losses on transactions between our group companies were eliminated on combination.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

During the Track Record Period, the following factors have significantly affected our results of operations and financial condition:

Growth and Competitive Landscape of the Global PCI/PTA Instrument Market

Our financial performance and future growth depend on the overall growth of the global PCI/PTA instrument market, as well as changes in their respective competitive landscape. In major markets, such as the PRC, Japan, the United States, Europe and APAC region, the PCI/PTA instrument market continue to grow at a steady pace. With the escalating prevalence of cardiovascular diseases, increasing preference of PCI procedures over traditional open-chest surgeries, and growing physician awareness and hospital adoption of transcatheter procedures, PCI/PTA instrument market is expected to experience continuous growth in the future, according to the CIC Report. For details, see section headed “Industry Overview” in this document.

In addition, changes in the competitive landscape in the PCI/PTA instrument market globally will also impact our results of operations. Our PCI balloon products achieved a 20%, 11%, 8% and 3% market share in terms of sales volume in 2021 in Japan, Europe, the PRC and

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the United States, respectively. However, potential competitors or faster-than-expected development of their products may affect our market position and demand for our products, which may in turn affect our results of operations.

We believe that by leveraging on our market position in the global PCI/PTA instrument market, we are well-positioned to capture the expected growth of the market through our innovative and robust product portfolio, which will further drive our results of operation and financial performance in the future.

Changes in Regulatory Environment

The medical device industry is highly regulated. Government policies and regulations, and their implementation and enforcement, significantly impact the supply, demand and pricing of medical devices, as well as on the cost of compliance for medical device companies in countries/regions where they operate. Medical devices must be filed or registered with the FDA, EMA, PMDA, NMPA or other similar regulatory authorities before they can be manufactured or sold in relevant markets, and some of such filings and registrations must be renewed periodically. The regulatory requirements in connection with such filing and registrations may change, which could significantly increase the resources and time required to launch new products and renew registrations for existing products.

In recent years, the government in the PRC, the U.S. and many other countries have promulgated policies to encourage the development of innovative medical devices, which have contributed to the growth of the medical devices industry. Changes in policies and regulations may also affect our results of operations. For example, in light of the PRC government’s key policy objective to regulate pricing in the healthcare industry, legislations have been proposed or enacted. One of such efforts is the public tender processes that we are responsible for participating in under regional centralized procurement regimes for the right to sell our products to many public hospitals and other not-for-profit medical institutions within a particular region. We will constantly adjust our operations and sales practices in order to comply with any changes in the regulatory environment in the countries and/or regions where our products are sold to.

Our Ability to Develop and Successfully Market New Products

Our ability to develop and successfully market new products is one of the most important factors affecting our results of operations and financial condition. Our success depends on our ability to anticipate industry trends and identify, develop and market innovative products that meet our customers’ evolving demand in a timely and cost-effective manner. Although we have a variety of existing products and have covered most of the cardiovascular interventional procedural instruments, new products are expected to continue to significantly influence our revenue and gross profit margins as new products generally have higher gross profit margins. We intend to expand our product portfolio by strengthening our research and development of new or enhanced products, expanding product lines and improving our existing products.

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Moving forward, we will target our product development efforts on increasing our portfolio of cardiovascular interventional medical devices and expanding our product lines to include products such as medical devices for neuro-interventional and structural heart diseases. Nonetheless, any potential delays in our research and development activities or expected commercial launches relating to our pipeline products may significantly affect our future revenue growth and business prospects.

Our Ability to Expand and Efficiently Manage Our Distributor Network and Sales Force

We generate a substantial portion of our total revenue from sales to distributors. In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, revenue from sales to distributors was US\$44.8 million, US\$38.3 million, US\$52.3 million, US\$26.3 million and US\$35.2 million, respectively, representing 46.5%, 43.3%, 44.9%, 45.8% and 51.1% of our total revenue, respectively. As a result, our ability to expand and efficiently manage our distribution network remains critical to our business and financial performance. In 2019, 2020, 2021 and for the six months ended June 30, 2022, our distribution network consisted of approximately 69, 62, 174 and 207 distributors globally, respectively.

In addition, we generate a large portion of our total revenue from sales to hospitals. In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, revenue from direct sales to hospitals was US\$50.5 million, US\$49.1 million, US\$63.9 million, US\$31.0 million and US\$33.6 million, respectively, representing 52.4%, 55.5%, 54.9%, 54.1% and 48.9% of our total revenue, respectively. Accordingly, our ability to expand and efficiently manage our sales force also remains critical to our business and financial performance.

Product Pricing

For our products sold directly to customers, our product prices are based on the public biddings set by hospitals and health care agencies and our negotiation with relevant customers pursuant to applicable regulations, which may put downward pressure on our selling prices. For our products sold to distributors, our product prices are affected by our negotiation with the distributors with reference to their selling price to the hospitals. Decreases in the selling prices of our products may materially and adversely affect our revenue and gross profit margin. We seek to enhance our pricing bargaining power by investing in product development, design capabilities and new product initiatives that respond to customer needs. We seek to maintain the average selling prices of our products despite pricing pressure. However, to the extent our cost reductions do not sufficiently offset price reductions, our profit margins could decline.

Our Ability to Expand Manufacturing Capacity

Our manufacturing capacity affects our results of operations. Since our inception, the overall production capacity of our production facilities in Shenzhen, the PRC and Hoewelaken, the Netherlands have grown from approximately 1,066,000 units per year for balloon products and approximately 56,400 units per year for stent products in 2019 to approximately 1,352,000 units per year for balloon products and approximately 56,400 units per year for stent products for the six months ended June 30, 2022. We need to expand our manufacturing capacity over

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time to satisfy increased demand for our products. The expansion of our manufacturing capacity requires time to (i) construct the facilities, (ii) obtain the necessary permits and certifications for operations, (iii) recruit and train the new employees for the new manufacturing facility and (iv) purchase our replacement machine and equipment. We plan to increase our capacity by adding additional production lines in our facilities in the PRC. For details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Our Ability to Manage Our Costs and Expenses

Our profitability has benefited from our effective control of cost of sales and ability to improve operating efficiency. We recorded an adjusted net profit margin (non-HKFRS measure) of 7.2%, 8.0%, 18.3%, 19.2% and 19.8% for the year ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. As our production volume and revenue grow, our cost of sales as a percentage of revenue may further decrease due to economies of scale, which will drive our future business growth.

In addition, our business and results of operations are significantly affected by our operating cost structure, which primarily comprised cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses during the Track Record Period. We incur substantial selling and distribution expenses as we maintain a well-established sales and marketing team to conduct direct sales to hospitals in various countries and to support our marketing and physician education activities and customer services. As we expect to launch additional products when approvals are received and to further penetrate into existing and new markets, we will further increase our sales and marketing activities and expand our in-house sales and marketing team, and our selling and distribution expenses will increase accordingly.

Our general and administrative expenses primarily consist of employee benefit expenses, depreciation and amortization and legal and professional fees. We expect our general and administrative expenses to increase in the future to support our business expansion. We also anticipate increasing legal, compliance, accounting, insurance and investor and public relations expenses associated with being a public company.

Our current research and development activities mainly relate to the advancement of our pipeline products. We expect that our research and development expenses will continue to contribute to a substantial proportion of our total operating expenses in the foreseeable future as we move pipeline products currently at earlier clinical stage into more advanced clinical trials and advance preclinical programs into clinical trials, as well as our continued clinical development of our pipeline products.

Fluctuations in Foreign Exchange Rates

During the Track Record Period, we generated some of our revenue from sales denominated in foreign currencies, while a substantial portion of our costs and expenses were denominated in Hong Kong dollars, Renminbi, Euro and Japanese Yen. In addition, we have a well-established global operations and generate revenue in multiple different currencies, and

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therefore the translation of local currencies into U.S. dollar, being our reporting currency, would also impact on our results of operations. Fluctuations in exchange rates, particularly the rate between Renminbi, Euro and Japanese Yen and the U.S. dollar, could significantly impact our financial condition and results of operations, affect our gross and net profit margins, and result in foreign exchange and operating gains or losses. For details of our sensitivity analysis, please refer to the paragraph headed "– Qualitative and Quantitative Disclosure about Market Risk" in this section.

Impact of the COVID-19 Outbreak

On January 30, 2020, the World Health Organization declared that the outbreak of COVID-19 constitutes a Public Health Emergency of International Concern (PHEIC). In February and March 2020, an increasing number of additional cases were confirmed in many countries and regions around the world. In March 2020, the World Health Organization declared COVID-19 as a pandemic. The outbreak of COVID-19 has endangered the health of many people, resulting in numerous confirmed cases and deaths and significantly disrupted travels and economies around the world.

In February 2020, we began to take precautionary measures to protect the health and safety of our employees and further assess the actual and potential impact of the COVID-19 pandemic on our business and operations. COVID-19 infections have been reported throughout the PRC, Japan, Europe and the U.S., along with various other jurisdictions in which our distributors and customers locate. In addition, COVID-19 has caused disruption and volatility in the global capital markets, and has led to an economic slowdown. We believe that our revenue for 2020 was negatively affected by decreased utilization of our products as a result of the COVID-19 pandemic. Nonetheless, the pandemic has not materially affected our liquidity as we maintain sufficient cash reserves.

In order to prevent and control the outbreak of COVID-19, many countries, including the PRC, Japan, Europe and the U.S. where we have operations, introduced various control measures. For example, the local governments of various countries adopted a series of continuous control measures, including but not limited to restrictions on hospitals from conducting surgeries without immediate needs, traffic control, travel bans, thereby leading to a lower number of PCI/PTA procedures performed.

As a result of the outbreak of COVID-19 pandemic, we experienced the following since 2020:

- (i) Temporary reduction of our sales for certain products - we experienced a decrease in the sales of our PCI balloon products of approximately 66,000 units in 2020 as compared to the number of units sold in 2019.

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- (ii) Temporary suspension of our operations, and shortage of labor and raw materials - In February and March 2020, our operating results were adversely impacted by the salary expenses of our production staff of US\$1.4 million in connection with the temporary suspension of our production facilities in Shenzhen, the PRC.
- (iii) Increasing pressure on operational costs and expenses due to idled facilities - the utilization rate of our production facilities in Shenzhen, the PRC was adversely impacted by the COVID-19 outbreak, with depreciation and utility expenses for idled facilities and equipment of US\$0.2 million in 2020.
- (iv) Delays in our shipment generally ranging from one to two weeks in 2020 to 2022. We closely monitored the global logistics and shipment situation, and considered to place orders for raw materials two to three months in advance with our suppliers.
- (v) Temporary suspension of production in our Shenzhen production facilities for about two weeks in March 2022.

Subsequent to the Track Record Period and up to the Latest Practicable Date, there has not been any further suspension of production in our Shenzhen production facilities as a result of the recurrences of COVID-19. The recurrences of COVID-19 in the PRC and other countries and regions did not result in any material adverse impact on the Group’s financial performance during the Track Record Period and up to the Latest Practicable Date, given the durations of the delays in shipment and suspension of production were short. Our revenue increased by US\$11.6 million from US\$57.3 million in the first six months of 2021 to US\$68.9 million in the first six months of 2022. Sales volume increased by 18.5% from approximately 850,000 units in the first ten months of 2021 to approximately 1,007,000 units in the first ten months of 2022.

The extent to which the COVID-19 pandemic impacts our results of operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of such pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures on our suppliers or relevant regulatory agencies, among others. We are constantly monitoring the situations of the COVID-19 outbreak as well as various regulatory and administrative measures adopted by the local governments to prevent and control the epidemics. If the situations deteriorate, we will continue to evaluate the impact from this outbreak on us and may enhance our measures such as strategically stock up raw materials that are crucial to our production, adjust buffer stock level to manage any potential increase in lead time and dedicate resources to take actions to mitigate any adverse effect on our business operations, results of operations, financial positions and prospects.

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CRITICAL ACCOUNTING POLICIES

The Accountant’s Report in Appendix I to this document sets forth significant accounting policies, which are important for understanding our financial condition and results of operations. Some accounting policies involve subjective assumptions, estimates and judgments related to assets, liabilities, income, expenses and other accounting items.

We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Our estimates during the Track Record Period were generally accurate as compared to actual results and our estimates are unlikely to change materially in the near future. Results may differ under different assumptions and conditions. Our management has identified below the accounting policies, estimates and judgments that are most critical to the preparation of our consolidated financial information.

Revenue Recognition

Our revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. Revenue is recognized when, or as, the control of the goods is transferred to the customer.

We base our estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement. Revenue is recognized as follows:

(a) Sales of goods

We manufacture and sell medical instruments in vascular therapies. Revenue from sales are recognized when control of the products has transferred to the customers, and there is no unfulfilled obligation that could affect the customers’ acceptance of the products. There are two major channels of sales: (i) distributor sales and (ii) direct sales.

(i) Distributor sales

Revenue are recognized at point in time when control has been transferred to the customers, and either the customers have accepted the products in accordance with the sales contracts, the acceptance provisions have lapsed, or have objective evidence that all criteria for acceptance have been satisfied. Majority of such revenue are recognized when the products are dispatched from our warehouse. Revenue from these sales are recognized based on the price specified in the contract.

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(ii) *Direct sales*

Our direct sales represent consignment sales of goods to private and public hospitals. Revenue are recognized at point in time when control has been transferred to customers, that is, at the time when the customer has actually consumed the goods.

Research and Development Expenses

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognized as an intangible asset when the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognized as an asset and amortized on the straight-line basis to reflect the pattern in which the related economic benefits are recognized. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

The research and development costs which do not meet these criteria and recognized in the consolidated statements of profit or loss are determined based on estimated budgeted costs, known services received and progress report from the service vendors. If the actual research and development expenses were different from the estimate, this would have an impact on the research and development expenses recognized in the following reporting period. Our Group regularly reviews and revises the estimation of the amounts of the research and development costs recognized in the consolidated statements of profit or loss as the project progresses. Management regularly reviews the progress of the projects and the corresponding cost budgets.

Property, Plant and Equipment

Buildings comprise mainly factories and offices. Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the consolidated statements of profit or loss during the financial period in which they are incurred.

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Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Leasehold improvements	Shorter of 10 years or the lease term
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	4 to 10 years
Motor vehicles	3 to 5 years
Computer equipment	3 to 5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within “other gains/(losses) net” in the consolidated statements of profit or loss.

Construction-in-progress represents plant and machinery, leasehold improvements, furniture, fixtures and equipment and computer equipment on which construction work has not been completed and which, upon completion, management intend to hold for the use of our Group. They are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the amounts are transferred to respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

Trade Receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 to 180 days and therefore are all classified as current.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. We hold the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

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Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provision of Inventories

Our management reviews the condition of inventories at each reporting date and makes provision for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. Our Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Estimation of the Fair Value of the Level 3 Financial Instruments

Our level 3 financial instruments disclosed in Note 3.3, Note 29 and Note 30 of the Accountant’s Report in Appendix I represented investment in life insurance assets, retirement benefit obligations and convertible redeemable preferred shares. As these instruments are not traded in active markets, their fair values have been determined by using applicable valuation techniques.

In respect of the valuation of level 3 fair value measurement financial assets and liabilities, with reference to the guidance under the “Guidance Note on Directors’ Duties in the Context of Valuations in Corporate Transactions” issued by the SFC in May 2017 (the “Guidance”) applicable to directors of companies [REDACTED] on the Stock Exchange, our Directors adopted, as appropriate, the following procedures: (i) reviewed the terms of insurance policies, post-employment schemes and the terms of the related agreement, as well as terms of the share subscription agreements in relation to Series A and Series A-2 Preferred Shares; (ii) selected qualified persons with adequate knowledge and conducted valuation on the financial assets without readily determinable fair value; (iii) carefully considered available information in assessing the financial data and assumptions including but not limited to discount rate, risk free interest rate, expected volatility and industry conditions; (iv) engaged independent valuer to appraise the fair value of certain financial assets and financial liabilities that are significant, provided necessary financial to the valuer for the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (v) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis is fair and reasonable and our financial statements are properly prepared.

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The details on the fair value measurement of the financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3, Note 29 and Note 30 of the Accountant’s Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant’s opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-2 of Appendix I to this document. Our Directors are responsible for the underlying assumptions and bases in the preparation of the valuation of financial assets categorized within level 3 of fair value measurement in our historical financial information for the purpose of the preparation of the Accountant’s Report as referred to in Appendix I to this document.

In relation to the valuation of the level 3 financial assets and liabilities, the Joint Sponsors have conducted, among others, the following due diligence work: (i) discussing with our management with a view to understanding the nature and terms of our financial assets and liabilities and the work done by the Company in fair value estimation and their assessment of the valuation of the financial assets and liabilities at fair value; (ii) reviewing the relevant notes in the Accountant’s Report set out in Appendix I to this document; and (iii) discussing with the Reporting Accountant in respect of the audit procedures they have conducted for the purpose of expressing an opinion on the historical financial information of our Group as a whole.

Based on the due diligence work conducted as described above, and taking into account (i) the work done and representations by our Directors; and (ii) the unqualified opinion of the Reporting Accountant (see page I-2) that the Accountant’s Report in Appendix I to this document gives a true and fair view of the financial position and performance of our Group taken as a whole, nothing has come to the attention of the Joint Sponsors that would lead them to cast doubts on our fair value estimation of our financial assets and liabilities.

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DESCRIPTION OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth selected items in our consolidated statements of profit or loss for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000	2022 US\$'000
				<i>(Unaudited)</i>	
Revenue	96,342	88,472	116,462	57,339	68,851
Cost of sales	(30,895)	(30,452)	(35,290)	(16,790)	(21,137)
Gross profit	65,447	58,020	81,172	40,549	47,714
Other income – net	1,162	2,406	1,385	674	393
Other gains/(losses) – net	338	904	(1,020)	(513)	(2,854)
Selling and distribution expenses	(32,251)	(26,694)	(30,100)	(14,654)	(16,475)
General and administrative expenses	(15,707)	(14,295)	(19,958)	(8,187)	(10,738)
Research and development expenses	(9,593)	(12,578)	(12,148)	(5,827)	(6,720)
Net (impairment losses)/reversal of impairment losses on financial assets	(1,407)	931	109	158	(402)
Operating profit	7,989	8,694	19,440	12,200	10,918
Finance income	21	12	12	6	249
Finance costs	(503)	(1,405)	(5,607)	(1,048)	(1,407)
Finance costs – net	(482)	(1,393)	(5,595)	(1,042)	(1,158)
Fair value losses of convertible redeemable preferred shares	–	–	(14,397)	(6,030)	–
Loss on derecognition of financial liability in relation to convertible redeemable preferred shares	–	–	(559)	–	–
Share of losses of investment in a joint venture	–	(46)	(207)	(149)	(71)
Profit/(loss) before income tax	7,507	7,255	(1,318)	4,979	9,689
Income tax expense	(549)	(184)	(3,126)	(1,658)	(1,652)
Profit/(loss) for the year/period attributable to owners of the Company	<u>6,958</u>	<u>7,071</u>	<u>(4,444)</u>	<u>3,321</u>	<u>8,037</u>

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Non-HKFRS Measures

To supplement our consolidated results, which are prepared and presented in accordance with HKFRS, we use certain additional financial measures which are not required by or presented in accordance with HKFRS. Such measures include adjusted profit for the year (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure). Our adjusted profit for the year/period (non-HKFRS measure) are not calculated in accordance with HKFRS, and they are considered non-HKFRS measures. We believe that adjusted profit for the year/period (non-HKFRS measure) are useful for investors in comparing our performance, and they allow investors to consider metrics used by our management in evaluating our performance.

We define adjusted profit for the year/period (non-HKFRS measure) as profit/(loss) for the year/period by adding back: (i) unwinding of interests on convertible redeemable preferred shares, (ii) share-based compensation expenses, (iii) fair value losses of convertible redeemable preferred shares, (iv) loss on derecognition of financial liability in relation to convertible redeemable preferred shares, (v) [REDACTED], and (vi) fair value loss of a Commodity Linked Fixed Rate Note. We also define adjusted net profit margin (non-HKFRS measure) as adjusted profit for the year/period (non-HKFRS measure) divided by total revenue. We elected to add back these items for the non-HKFRS measure primarily because (i) all outstanding Series A and Series A-2 Preferred Shares of our Company have been or will be reclassified to equity upon fulfillment of conditions attached in the relevant agreement and no later than the completion of the [REDACTED], and therefore, we will no longer incur any unwinding of interests, fair value losses or losses on derecognition of financial liability, in relation to the convertible redeemable preferred shares. In addition, unwinding of interests, fair value losses and losses on derecognition of financial liability in relation to the convertible redeemable preferred shares were non-cash items, (ii) our share-based compensation expenses were non-cash in nature, (iii) we incurred [REDACTED] in relation to the [REDACTED], and (iv) we will hold the Commodity Linked Fixed Rate Note till maturity and receive its face values plus predetermined coupon rate of 2.8% in December 2023, and the fair value loss was non-cash item and there will be fair value gain in subsequent period till maturity to completely offset the current fair value loss.

Our adjusted profit for the year (non-HKFRS measure) increased by 201.4% from US\$7.1 million in 2020 to US\$21.4 million in 2021, and our adjusted net profit margin (non-HKFRS measure) increased from 8.0% in 2020 to 18.3% in 2021, primarily due to the increase in gross profit as a result of increase in revenue, and our relatively stable expenses (excluding reconciling items under non-HKFRS measure) in 2021 as compared to 2020.

Our adjusted profit for the period (non-HKFRS measure) increased by 23.6% from US\$11.0 million for the six months ended June 30, 2021 to US\$13.6 million for the six months ended June 30, 2022, and our adjusted net profit margin increased from 19.2% for the six months ended June 30, 2021 to 19.8% for the six months ended June 30, 2022, primarily due to the increase in gross profit as a result of increase in revenue, and our relatively stable expenses (excluding reconciling items under non-HKFRS measure) for the six months ended of June 30, 2022 as compared to the same period in 2021.

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Our Directors believe that the presentation of non-HKFRS measures when shown in conjunction with the corresponding HKFRS measures provides useful information to investors and management regarding financial and business trends relation to its financial condition and results of operations, by eliminating potential impacts of certain items.

The use of non-HKFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to analysis of, our results of operations or financial conditions as reported under HKFRS. In addition, non-HKFRS measures used in this document may be defined differently from similar terms used by other companies.

	For the year ended			For the six months	
	December 31,			ended June 30,	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(Unaudited)</i>	
<u>Non-HKFRS Measures</u>					
Profit/(loss) for the year/period	6,958	7,071	(4,444)	3,321	8,037
Add:					
Unwinding of interests on convertible redeemable preferred shares	–	–	4,853	476	1,336
Share-based compensation expenses	–	–	1,339	670	368
Fair value loss of the Commodity Linked Fixed Rate Note	–	–	–	–	1,266
Fair value losses of convertible redeemable preferred shares	–	–	14,397	6,030	–
Loss on derecognition of financial liability in relation to convertible redeemable preferred shares	–	–	559	–	–
[REDACTED]	–	–	[REDACTED]	[REDACTED]	[REDACTED]
	<u>6,958</u>	<u>7,071</u>	<u>21,352</u>	<u>10,989</u>	<u>13,606</u>
Adjusted profit for the year/period (non-HKFRS measure)	<u>6,958</u>	<u>7,071</u>	<u>21,352</u>	<u>10,989</u>	<u>13,606</u>

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Revenue

The following table sets forth our revenue by business line, in absolute amount and as a percentage of total revenue, for the periods indicated:

	For the year ended December 31,						For the six months ended				
	2019		2020		2021		2021		2022		
	<i>(Unaudited)</i>										
	<i>(US\$'000, except percentages)</i>										
Coronary interventional medical devices											
<i>Balloon</i>											
Semi-compliant	30,125	31.3%	25,875	29.2%	27,427	23.6%	14,153	24.7%	13,993	20.3%	
Non-compliant	23,842	24.7%	20,670	23.4%	25,948	22.3%	12,826	22.4%	13,176	19.1%	
Scoring	16,402	17.0%	14,352	16.2%	29,383	25.2%	12,154	21.2%	24,700	35.9%	
<i>Stent</i>											
Dual therapy stents	11,619	12.1%	12,879	14.5%	13,591	11.7%	7,240	12.6%	6,259	9.1%	
Bare metal stents	229	0.2%	71	0.1%	47	0.0%	23	0.0%	2	0.0%	
Subtotal	82,217	85.3%	73,847	83.4%	96,396	82.8%	46,396	80.9%	58,130	84.4%	
Peripheral interventional medical devices											
<i>Balloon</i>											
	6,963	7.2%	7,476	8.5%	11,683	10.0%	6,703	11.7%	5,581	8.1%	
Other medical accessories	5,065	5.3%	4,810	5.4%	3,689	3.2%	1,469	2.6%	2,486	3.6%	
Third party products	2,097	2.2%	2,339	2.7%	4,694	4.0%	2,771	4.8%	2,654	3.9%	
Total	96,342	100.0%	88,472	100.0%	116,462	100.0%	57,339	100.0%	68,851	100.0%	

We generate revenue from sales of coronary and peripheral interventional medical devices, other medical accessories (including certain products we produced for other medical device manufacturers) and third party products.

Our revenue decreased from 2019 to 2020, primarily due to a US\$9.5 million decrease in revenue generated from coronary balloon products which was mainly the impact of the COVID-19 pandemic which led to a lower number of PCI surgeries performed and reduced the consumption of our products in 2020, partially offset by a US\$1.1 million increase in revenue generated from coronary stent products in connection with the introduction of COMBO Plus products in Japan.

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Our revenue increased from 2020 to 2021 primarily due to a US\$21.9 million increase in revenue generated from coronary balloon products as demand for our products in most markets, including the PRC, APAC and EMEA recovered when the COVID-19 pandemic became more stable. To a lesser extent, the US\$4.2 million increase in revenue generated from peripheral balloon products in connection with the introduction of our new Jade OTW series in the U.S. market also contributed to such increase in 2021.

Our revenue increased from the first six months of 2021 to the same period of 2022 primarily due to a US\$12.7 million increase in revenue generated from our coronary balloon products, particularly our scoring balloon products, as a result of (i) the increase in sales volume of our Scoreflex NC series in the U.S. market, which was introduced to the U.S. market in 2022, (ii) increase in sales volume of our Scoreflex Trio series in the Japan market and (iii) the increase in sales volume and average selling price of our Scoreflex series in the PRC market in the first six months of 2022.

For further breakdown and analysis of average selling price and sales volume, please refer to the following tables and analysis for more details.

The following table sets forth the respective sales volume and the average selling price of our major product series for the periods indicated:

	For the year ended December 31,					For the six months ended June 30,				
	2019		2020		2021	2021		2022		
	Average		Average		Average	Average		Average		
	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price
(thousand	US\$	(thousand	US\$	(thousand	US\$	(thousand	US\$	(thousand	US\$	
units)		units)		units)		units)		units)		
Coronary										
Interventional										
medical devices										
<i>Balloons</i>										
Semi-compliant	379	79	347	74	359	76	187	76	203	69
Non-compliant	318	74	283	73	365	71	177	72	198	66
Scoring	73	223	75	191	151	195	62	198	114	216
<i>Stents</i>										
Dual therapy										
stents	24	492	23	550	23	587	12	598	11	546
Peripheral										
interventional										
medical devices										
<i>Balloons</i>	24	285	33	227	106	110	66	104	54	103

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The above product categories all have different models, specifications and configurations in each product type. According to CIC Report, the average retail price of same model of standard PCI balloons is generally expected to decrease at approximately 2% per annum after its commercialization and product launch. However, the decrease in the average selling price is not an indication of our products reaching the end of their lifecycle or being replaced by other products.

The average selling price of semi-compliant balloons were relatively stable in 2019, 2020 and 2021, as the effect of the aforementioned decreasing price trend was partially offset by the launch of our new products, which were generally at higher average selling prices. The decrease in average selling price from the first six months of 2021 to the same period of 2022 was mainly due to the decrease in average selling price in the Japan markets as a result of the substantial depreciation of Japanese Yen against USD and the decrease in government reimbursement price in Japan in 2022.

The sales volume of semi-compliant balloons decreased from 2019 to 2020, primarily due to the decrease in the number of PCI surgeries performed as a result of the COVID-19 pandemic. As the demand recovered when the COVID-19 pandemic became more stable in 2021, our sales volume picked up accordingly. The sales volume of semi-compliant balloons increased from the first six months of 2021 to the same period of 2022, primarily due to the increase in sales of our Sapphire II Pro series in the U.S. market.

For non-compliant balloons, the average selling price in 2019 and 2020 were relatively stable. The decrease in average selling price from 2020 to 2021 was mainly due to the decrease in average selling price from 2020 to 2021 in the PRC market after our non-compliant balloons were brought into the scope of centralized procurement policies, and the decrease in average selling price in the Japan market as a result of the decrease in reimbursement to hospitals for medical products also contributed to the overall decrease in pricing of our non-compliant balloons. The decrease in average selling price from the first six months of 2021 to the same period of 2022 was mainly due to the decrease in average selling price in the Japan market as a result of the substantial depreciation of Japanese Yen against USD and the decrease in government reimbursement price in 2022.

Similar to our semi-compliant balloons above, the sales volume of non-compliant balloons decreased from 2019 to 2020 due to the COVID-19 pandemic. As the demand recovered when the COVID-19 pandemic became more stable in 2021, our sales volume picked up accordingly. The sales volume of semi-compliant balloons increased from the first six months of 2021 to the same period of 2022, primarily due to the increase in sales of our Sapphire NC Plus and Sapphire NC 24 series in the U.S. market.

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The decrease in average selling price of our scoring balloons from 2019 to 2020 was mainly due to the decrease in pricing in our Japan market as a result of the decrease in government reimbursement price and also the increase of sales volume in the PRC market in 2020, where the selling price was lower than other markets. The average selling price in 2020 and 2021 were relatively stable. The increase in average selling price from the first six months of 2021 to the same period of 2022 was mainly due to the increase in average selling price in the U.S. market as a result of the introduction of our Scoreflex NC series, increase in sales volume of our Scoreflex Trio series with high average selling price in the Japan market and the increase in average selling price of our Scoreflex series in the PRC market in the first six months of 2022.

Sales volume of our scoring balloons remained relatively stable in 2019 and 2020 despite the impact of the COVID-19 pandemic, which was partially offset by the increase in demand in the PRC market for balloon products with high flexibility and cross-ability. The drastic increase in sales volume from 2020 to 2021 was primarily due to the increase in sales of our scoring balloons in the PRC market, as a result of our efforts in the expansion of sales network and the wide recognition of our products in the PRC. Sales volume further increased from the first six months of 2021 to the same period of 2022, primarily due to the introduction of our Scoreflex NC series in the U.S. market, increase in sales of our Scoreflex Trio series and Scoreflex series in the Japan and PRC markets respectively.

The average selling price of dual therapy stents increased from 2019 to 2020 and further increased in 2021 due to the introduction of COMBO Plus in Japan since late 2019, which had a relatively higher selling price. The decrease in average selling price from the first six months of 2021 to the same period of 2022 was mainly due to the decrease in average selling price in the Japan market as a result of the substantial depreciation of Japanese Yen against USD and the decrease in government reimbursement price in 2022.

Sales volume of our dual therapy stents remained relatively stable during the Track Record Period despite the impact of the COVID-19 pandemic, which was partially offset by the introduction of COMBO Plus in Japan in late 2019.

For peripheral balloons, the decrease in average selling price from 2019 to 2020 was mainly due to the increase of sales volume in APAC and EMEA markets, where the average selling prices in both markets are lower than our Japan market. The average selling price further decreased from 2020 to 2021 as a result of the launch of our Jade OTW series in the U.S., which had a lower selling price after taking into account the discount to the U.S. distributor.

The average selling price of our peripheral balloons were relatively stable for the first six months of 2021 and 2022.

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The increase in sales volume of our peripheral balloons from 2019 to 2020 and further increase in 2021 was primarily due to our introduction of the Jade OTW series in the U.S. market in the second half of 2020. The decrease of sales volume of our peripheral balloons for the first six months of 2022 compared to that of the same period in 2021 was attributable to the decrease in sales in the U.S. market as a result of the launch of our coronary balloons, Scoreflex NC series and Sapphire NC 24 series in the U.S. market in the first half of 2022. The U.S. distributor planned to order more coronary balloons in the first half of 2022 and catch up the ordering of peripheral balloons in the second half of 2022 according to their sales and stock management.

As of June 30, 2022, we sold our products through distributors or directly to customers in around 70 countries and regions globally. The following table sets forth our revenue by geographic area, in absolute amount and as a percentage of our total revenue, for the periods indicated:

	For the year ended December 31,					For the six months ended June 30,				
	2019	2020		2021		2021		2022		
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
EMEA										
Germany	3,437	3.6%	3,367	3.8%	5,371	4.6%	2,667	4.7%	2,572	3.7%
Russian Federation	2,965	3.1%	2,635	3.0%	2,042	1.8%	1,370	2.4%	281	0.4%
Switzerland	1,667	1.7%	2,138	2.4%	3,991	3.4%	2,198	3.8%	1,899	2.8%
Spain	2,925	3.0%	2,239	2.5%	3,305	2.8%	1,715	3.0%	1,808	2.6%
Others*	16,427	17.1%	14,049	15.9%	19,413	16.7%	9,951	17.4%	10,007	14.5%
EMEA Subtotal	27,421	28.5%	24,428	27.6%	34,122	29.3%	17,901	31.3%	16,567	24.0%
Japan	29,357	30.5%	28,164	31.8%	29,807	25.6%	14,748	25.7%	17,134	24.9%
APAC										
Hong Kong	5,932	6.2%	5,745	6.5%	7,723	6.6%	3,834	6.7%	3,454	5.0%
Singapore	3,742	3.9%	2,688	3.0%	4,275	3.7%	2,001	3.5%	1,828	2.7%
Malaysia	3,944	4.1%	3,981	4.5%	4,379	3.8%	1,750	3.1%	2,245	3.3%
Taiwan	3,111	3.2%	2,150	2.4%	2,224	1.9%	1,052	1.8%	1,568	2.3%
Vietnam	2,966	3.1%	2,402	2.7%	2,014	1.7%	1,467	2.6%	954	1.4%
Indonesia	1,699	1.8%	2,145	2.4%	2,366	2.0%	1,123	2.0%	1,661	2.4%
Others*	5,575	5.6%	4,434	5.2%	5,007	4.3%	2,394	4.0%	3,109	4.5%
APAC Subtotal	26,969	27.9%	23,545	26.7%	27,988	24.0%	13,621	23.7%	14,819	21.6%
The PRC	8,269	8.6%	5,047	5.7%	17,077	14.7%	6,940	12.1%	13,319	19.3%
United States	4,326	4.5%	7,288	8.2%	7,468	6.4%	4,129	7.2%	7,012	10.2%
Total	96,342	100.0%	88,472	100.0%	116,462	100.0%	57,339	100.0%	68,851	100.0%

* Included 39 or above EMEA countries/regions and 12 or above APAC countries/regions with individual contribution of less than 3% to the Group's revenue during the Track Record Period.

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Our revenue decreased from 2019 to 2020, primarily due to an overall decrease in revenue generated from the PRC, Japan, EMEA and APAC which was mainly impacted by the COVID-19 pandemic, partially offset by a US\$3.0 million increase in revenue generated from the U.S. in connection with the increased sales volume of coronary balloons and microcatheters along with our increased hospital coverage in the U.S..

Our revenue increased from 2020 to 2021 primarily due to a US\$9.7 million increase in revenue generated from the EMEA market for coronary balloons, microcatheters and atherectomy devices as well as a US\$12.0 million increase in revenue from the PRC primarily due to (i) the increase in average selling price due to the elimination of the intermediate layer of the previous exclusive distributor between us and the regional distributors/hospitals in the distribution process; (ii) the increase in the number of regional distributors to expand our hospital coverage; (iii) the success of the additional marketing efforts of our scoring coronary balloon which were not admitted under the centralized procurement policy and (iv) the wider market recognition of our products by physicians. The US\$4.5 million increase in revenue generated from the APAC market, which was primarily due to the introduction of our Sapphire 3 series and Sapphire NC 24 series in Hong Kong and Singapore, along with a relatively high average selling prices, also contributed to the overall increase in revenue from 2020 to 2021.

Our revenue increased from the first six months of 2021 to the same period of 2022, primarily due to a US\$2.9 million increase in revenue generated from the U.S. market for coronary balloons and microcatheters, primarily as a result of the increase in sales volume of our Scoreflex NC series, which was introduced in 2022; a US\$2.4 million increase in revenue generated from the Japan market for coronary balloons and microcatheters, primarily as a result of the increase in sales volume of our Scoreflex Trio series; as well as a US\$6.4 million increase in revenue generated from the PRC market, mainly because of the increase in sales volume and average selling price of our Scoreflex series, in connection with our continuous effort in the expansion of sales network to expand our hospital coverage and wider market recognition of our products by physicians. The US\$1.2 million increase in revenue generated from the APAC market also contributed to the overall increase in revenue from the first six months in 2021 to the same period in 2022, which was mainly due to the increase in sales in the Malaysia market in connection with the introduction of our Sapphire 3 series. The overall increase in revenue from the first six months of 2021 to the same period in 2022 was slightly offset by the decrease in revenue in our EMEA market, as affected by the recent Russo-Ukrainian conflict which lead to a decrease in sales in the Russian Federation.

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The following table sets forth our revenue generated from our major product series in the PRC in 2020, 2021 and for the six months ended June 30, 2021 and 2022, respectively:

	For the year ended		For the six months ended	
	December 31,		June 30,	
	2020	2021	2021	2022
	Revenue	Revenue	Revenue	Revenue
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
			<i>(Unaudited)</i>	
Coronary interventional				
medical devices				
Semi-compliant balloon	1,900	1,359	805	607
Non-compliant balloon	1,715	1,512	880	526
Scoring coronary balloon	1,432	14,206	5,255	12,171
Subtotal	5,047	17,077	6,940	13,304
Peripheral interventional				
medical devices				
Balloon	–	–	–	7
Other medical devices	–	–	–	8
Total	5,047	17,077	6,940	13,319

We actively participated in tenders and won seven bids of centralized procurement covering 23 provincial regions in the PRC in 2021, and therefore a majority of our semi-compliant and non-compliant balloons were sold under the centralized procurement policy in 2021.

The increase in revenue in the PRC from 2020 to 2021 and from the first six months of 2021 to the same period of 2022 was due to: (i) the expansion of sales network in the PRC by increasing the number of regional distributors to expand our hospital coverage; (ii) the success of the additional marketing efforts of our scoring coronary balloon which were not under the centralized procurement policy; (iii) the wider market recognition of our products by physicians; and (iv) the increase in average selling price due to elimination of the previous exclusive distributor between us and the regional distributors/hospitals in the PRC in the distribution process. The overall gross profit margin for sales in the PRC increased from 52.1% in 2020 to 72.2% in 2021 and from 70.2% in the first six months of 2021 to 78.7% in the same period of 2022 as a result of the increase in the revenue and selling price of our scoring coronary balloon.

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The following table sets forth our revenue by sales channels, in absolute amount and as a percentage of our total revenue, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		2021		June 30, 2022	
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
Direct Sales*	50,464	52.4%	49,079	55.5%	63,944	54.9%	30,998	54.1%	33,643	48.9%
Sales to Distributors	44,778	46.5%	38,312	43.3%	52,267	44.9%	26,282	45.8%	35,202	51.1%
Others	1,100	1.1%	1,081	1.2%	251	0.2%	59	0.1%	6	0.0%
Total	96,342	100.0%	88,472	100.0%	116,462	100.0%	57,339	100.0%	68,851	100.0%

* Include sales in Japan and Malaysia markets, where sales are through local procurement agents designated by hospitals under applicable local regulations and/or market practice. For 2021 and the six months ended June 30, 2021 and 2022, direct sales included sales in the PRC market made through qualified logistics services providers under the centralized procurement policy.

During the years ended December 31, 2019, 2020 and 2021, revenue from sales to distributors and direct sales as a percentage to our total revenue remained relatively stable, and the fluctuations of our revenue numbers primarily reflects the continued growth of our Group, except that the decrease in 2020 primarily reflected the impact of the COVID-19 pandemic, which led to a lower number of PCI surgeries performed in 2020 compared to that of 2019.

Our direct sales increased from US\$49.1 million in 2020 to US\$63.9 million in 2021. Apart from the recovered demand for our products as the COVID-19 pandemic became more stable, the introduction of our new generation of products such as our Sapphire 3 series and Sapphire NC 24 series in markets including Hong Kong, Malaysia and Singapore with relatively high average selling prices also contributed to the increase. Moreover, sales in Switzerland increased from 2020 to 2021, as we acquired the previous exclusive distributor in August 2020 to eliminate the intermediate layer. Our direct sales increased from US\$31.0 million in the first six months of 2021 to US\$33.6 million in the same period in 2022. Such increase was mainly due to the increase in sales volume of our Scoreflex Trio series in the Japan market and also reflects the continuous growth of our Group.

Our sales to distributors increased from US\$38.3 million in 2020 to US\$52.3 million in 2021. Apart from the recovered demand for our products as the COVID-19 pandemic became more stable, the increase in revenue was mainly contributed by the increase in sales in the PRC market, as a result of (i) the increase in average selling price due to the elimination of the previous exclusive distributor layer between us and the regional distributors, (ii) the increase in the number of regional distributors to expand our hospital coverage, (iii) the success of the additional marketing efforts of our scoring coronary balloons which were not admitted under the centralized procurement policy and (iv) the wider market recognition of our products by physicians. Our sales to distributors increased from US\$26.3 million in the first six months of 2021 to US\$35.2 million in the same period in 2022. Such increase was primarily due to (i) the increase in sales volume of our Scoreflex NC series in the U.S. market, which was introduced to the U.S. market in 2022, and (ii) a US\$6.1 million increase in the PRC market through the increase in sales volume and average selling price of our Scoreflex series.

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Cost of Sales

Our cost of sales consists of raw material, manufacturing and direct labor costs. Our cost of sales accounted for 32.1%, 34.4%, 30.3%, 29.3% and 30.7% of our total revenue in 2019, 2020, 2021 and the first six months of 2021 and 2022, respectively. The following table sets forth the components of our cost of sales, in absolute amount and as a percentage of our total cost of sales, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		2021		2022	
							June 30,			
							(Unaudited)			
	(US\$'000, except percentages)									
Costs of self-developed products										
Raw material costs	14,656	47.4%	14,990	49.2%	15,479	43.9%	6,905	41.1%	9,260	43.8%
Manufacturing costs	7,824	25.3%	7,051	23.2%	7,658	21.7%	3,727	22.2%	4,359	20.6%
Direct labor costs	5,905	19.1%	5,655	18.6%	7,369	20.9%	3,619	21.6%	4,677	22.1%
Others*	1,057	3.5%	1,182	3.8%	1,789	5.0%	802	4.8%	1,025	4.9%
Subtotal	29,442	95.3%	28,878	94.8%	32,295	91.5%	15,053	89.7%	19,321	91.4%
Purchase costs of third party products	1,453	4.7%	1,574	5.2%	2,995	8.5%	1,737	10.3%	1,816	8.6%
Total	30,895	100.0%	30,452	100.0%	35,290	100.0%	16,790	100.0%	21,137	100.0%

* Others include royalty expenses, delivery and warehouse charges.

Raw material costs constituted the largest component of our cost of sales during the Track Record Period. The principal raw materials used in our production are medical grade stainless steel stent frame, polyester and nylon. Our raw material costs increased from 2020 to 2021 and from the first six months of 2021 to the same period of 2022, primarily due to the increased sales volume. Our raw material costs increased from 2019 to 2020, mainly due to the launch of our COMBO Plus products in Japan, which has a higher raw material cost. Such increase was partially offset by the decrease in sales volume due to the COVID-19 pandemic.

Manufacturing costs consist primarily of operating costs for our production machines and facilities, including depreciation, utilities, maintenance costs and factory rentals. Our manufacturing costs decreased from 2019 to 2020, mainly due to the decrease in indirect labor costs as a result of reduction in production activities due to the COVID-19 pandemic. Our manufacturing costs increased from 2020 to 2021, mainly due to an increase in indirect labor costs and utilities expenses. Our manufacturing costs increased from the first six months of 2021 to the same period of 2022, mainly due to an increase in depreciation in connection with our increased leased properties used as staff quarters for our production staff in Shenzhen, repair and maintenance expenses for production efficiency and safety enhancement and utilities expenses due to the increase in production volume.

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Direct labor costs consist primarily of employee benefit expenses for production personnel. The increases in our direct labor costs from 2020 to 2021 and from the first six months of 2021 to the same period of 2022, primarily due to increases in the average salaries and the headcount of production personnel due to the production expansion of our Group to meet increased sales demand. Our direct labor costs decreased from 2019 to 2020, mainly due to the decrease in direct labor costs as our production headcount dropped due to the impact of the COVID-19 pandemic.

The following table sets forth our cost of sales by business line, in absolute amount and as a percentage of total cost of sales, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		June 30, 2021		2022	
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
Coronary										
 interventional										
 medical devices										
<i>Balloon</i>	21,777	70.5%	21,028	69.1%	22,618	64.1%	10,178	60.6%	13,286	62.9%
<i>Stent</i>	4,963	16.1%	5,090	16.7%	5,687	16.1%	2,816	16.8%	3,799	18.0%
Subtotal	26,740	86.6%	26,118	85.8%	28,305	80.2%	12,994	77.4%	17,085	80.9%
Peripheral										
 interventional										
 medical devices										
<i>Balloon</i>	692	2.2%	982	3.2%	2,743	7.8%	1,567	9.3%	1,360	6.4%
Other medical										
 accessories										
	2,010	6.5%	1,778	5.8%	1,247	3.5%	491	2.9%	747	3.5%
Third party products	1,453	4.7%	1,574	5.2%	2,995	8.5%	1,738	10.4%	1,945	9.2%
Total	<u>30,895</u>	<u>100.0%</u>	<u>30,452</u>	<u>100.0%</u>	<u>35,290</u>	<u>100.0%</u>	<u>16,790</u>	<u>100.0%</u>	<u>21,137</u>	<u>100.0%</u>

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin by business line and sales channels for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
By business line										
Coronary										
 interventional										
 medical devices										
<i>Balloon</i>	48,592	69.1%	39,869	65.5%	60,140	72.7%	28,955	74.0%	38,583	74.4%
<i>Stent</i>	6,885	58.1%	7,860	60.7%	7,951	58.3%	4,447	61.2%	2,462	39.3%
Subtotal	55,477	67.5%	47,729	64.6%	68,091	70.6%	33,402	72.0%	41,045	70.6%
Peripheral										
 interventional										
 medical devices										
<i>Balloon</i>	6,271	90.1%	6,494	86.9%	8,940	76.5%	5,136	76.6%	4,221	75.6%
Other medical										
 accessories										
	3,055	60.3%	3,032	63.0%	2,442	66.2%	978	66.6%	1,739	70.0%
Third party products	644	30.7%	765	32.7%	1,699	36.2%	1,033	37.3%	709	26.7%
Total gross profit/ overall gross profit margin	<u>65,447</u>	<u>67.9%</u>	<u>58,020</u>	<u>65.6%</u>	<u>81,172</u>	<u>69.7%</u>	<u>40,549</u>	<u>70.7%</u>	<u>47,714</u>	<u>69.3%</u>
By sales channels										
Direct sales	41,845	82.9%	39,442	80.4%	50,250	78.6%	23,930	77.2%	26,312	78.2%
Sales to distributors	23,602	51.4%	18,578	47.2%	30,922	58.9%	16,619	63.1%	21,402	60.8%
Total gross profit/overall gross profit margin	<u>65,447</u>	<u>67.9%</u>	<u>58,020</u>	<u>65.6%</u>	<u>81,172</u>	<u>69.7%</u>	<u>40,549</u>	<u>70.7%</u>	<u>47,714</u>	<u>69.3%</u>

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Our gross profit margin for coronary balloon products slightly decreased from 2019 to 2020, primarily due to a decrease in the average selling prices of our products in Japan. In 2021, our gross profit margin increased mainly due to our introduction of new generation of major products such as Sapphire 3 and Sapphire NC 24 balloons, which have higher average selling prices. Besides, increase in sales volume of scoring balloons, which have higher gross profit margin, in connection with the expansion of our sales network in the PRC also contributed to the increase in gross profit margin for coronary balloon products. Our gross profit margin for coronary balloon products was relatively stable in the first six months of 2021 and the same period of 2022.

Our gross profit margin for coronary stent products continued to increase from 2019 to 2020. The increase in 2020 was mainly due to our introduction of COMBO Plus dual therapy stent products in Japan, which had a higher average selling price. Our gross profit margin for coronary stent products remained stable in 2021. Our gross profit margin for coronary stent products decreased from the first six months of 2021 to the same period of 2022, primarily due to (i) the decrease in selling price in the Japan market as a result of the reduction in the government reimbursement price, (ii) the substantial depreciation of Japanese Yen against USD and (iii) provision for impairment increased as our stent products consigned in the hospitals increased as a result of our expanding hospital coverage in Japan since the launch of our COMBO Plus dual therapy stent products in 2020.

Our gross profit margin for peripheral balloon products remained stable in 2019 and 2020, and the decrease in 2021 was primarily due to the introduction of our new Jade OTW series in the U.S. market which led to lower average selling prices of our products after taking into the discount to local distributors. Gross profit margin for peripheral balloon products were higher than that of coronary balloon products, primarily because majority of our peripheral balloon products were sold in countries under the direct sales, such as Japan, where the average selling prices were higher. Our gross profit margin for peripheral balloon products remained relatively stable in the first six months of 2021 and the same period of 2022.

Our gross profit margin of medical device accessories increased during the Track Record Period, primarily due to the increase in the sales volume of our Teleport products and other accessories in direct sales countries or regions which had higher average selling price and thus higher gross profit margin.

Our gross profit margin for third party products remained relatively stable in 2019 and 2020. The increase from 2020 to 2021 was primarily due to the increase in sales volume of our coronary artery and peripheral orbital atherectomy products in certain countries under the direct sales model with higher average selling prices and thus gross margin. Our gross profit margin for third party products decreased from the first six months of 2021 to the same period of 2022, primarily because the gross profit margin for the distribution of drug eluting balloons launched in the Malaysia and Spain markets in 2022 was relatively low as a result of our commercial negotiations with a new supplier.

FINANCIAL INFORMATION

Our gross profit margin for direct sales channel decreased slightly from 82.9% in 2019 to 80.4% in 2020, which was primarily due to the decrease in average selling price of our balloon products in Spain and Germany markets and the decrease in average selling price of our stent products in Singapore market as a result of competition in the local markets. Such decrease was in line with the overall decreasing price trend of interventional medical devices.

Our gross profit margin for direct sales channel decreased slightly from 80.4% in 2020 to 78.6% in 2021, which was primarily due to certain of our products were sold under the centralized procurement policy in the PRC market which had a lower average selling price.

Our gross profit margin for direct sales channel remained stable in the first six months of 2021 and the same period of 2022.

Our gross profit margin for sales to distributors decreased from 51.4% in 2019 to 47.2% in 2020, which was primarily due to the decrease in average selling prices of our US and EMEA markets, which was in line with the decreasing price trend of interventional medical devices.

Our gross profit margin for sales to distributors increased from 47.2% in 2020 to 58.9% in 2021, which was primarily due to the expansion of sales network in the PRC by selling to the regional distributors directly. The average selling price of balloon products increased due to the elimination of the intermediate layer of the previous exclusive distributor and therefore increased the gross profit margin.

Our gross profit margin for sales to distributors slightly decreased from 63.1% in the first six months of 2021 to 60.8% in the same period in 2022, primarily due to the increase in sales volume of our balloon products in certain APAC countries with lower average selling price.

Other Income

Other income consists primarily of government grants. Other income accounted for 1.2%, 2.7%, 1.2%, 1.2% and 0.6% of our total revenue in 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, respectively. The following table sets forth the components of our other income, in absolute amount and as a percentage of total other income, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		2021		2022	
	(Unaudited)									
	(US\$'000, except percentages)									
Government grants	1,066	91.7%	2,333	97.0%	1,166	84.2%	670	99.4%	320	81.4%
Others	96	8.3%	73	3.0%	219	15.8%	4	0.6%	73	18.6%
	<u>1,162</u>	<u>100.0%</u>	<u>2,406</u>	<u>100.0%</u>	<u>1,385</u>	<u>100.0%</u>	<u>674</u>	<u>100.0%</u>	<u>393</u>	<u>100.0%</u>

FINANCIAL INFORMATION

The majority of the government grants are subsidies from the PRC government for encouragement of our PRC operating subsidiary’s research and development projects and as incentive for our investing in medical device production lines.

Other Gains/(Losses) – Net

Other gains/(losses) – net consists primarily of net gains/(losses) on foreign exchange, losses on disposals of property, plant and equipment and realized losses on disposals of financial assets. Other gains/(losses) accounted for 0.4%, 1.0%, (0.9)%, (0.9)% and (4.1)% of our total revenue in 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, respectively. The following table sets forth the components of our other gains/(losses) for the periods indicated:

	For the year ended			For the six months	
	December 31,			ended June 30,	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	<i>(Unaudited)</i>				
Net foreign exchange gains/(losses)	365	1,016	(903)	(453)	(1,197)
Losses on disposals of property, plant and equipment	(48)	(3)	(83)	(24)	–
Written off of property, plant and equipment	–	–	–	–	(311)
Realized losses on disposals of financial assets at fair value through profit or loss	(41)	(37)	(22)	(9)	(5)
Unrealized gains/(losses) of fair value change in financial assets at fair value through profit or loss	60	(76)	(29)	(33)	(1,347)
Gain on early termination of a lease contract	2	–	–	–	2
Gain on disposals of subsidiaries	–	10	–	–	–
Others	–	(6)	17	6	4
	<u>338</u>	<u>904</u>	<u>(1,020)</u>	<u>(513)</u>	<u>(2,854)</u>

FINANCIAL INFORMATION

Selling and Distribution Expenses

Our selling and distribution expenses consist primarily of employee benefit expenses, royalty expense, marketing and advertising expenses and commission expenses paid to local procurement agents designated by hospitals in certain countries. In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, selling and distribution expenses accounted for 33.5%, 30.2%, 25.8%, 25.6% and 23.9% of our total revenue, respectively.

The following table sets forth the components of our selling and distribution expenses, in absolute amount and as a percentage of total selling and distribution expenses, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		June 30,		2022	
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
Employee benefit expenses	14,714	45.6%	14,750	55.3%	17,278	57.4%	8,732	59.6%	9,144	55.5%
Royalty expense	2,652	8.2%	2,384	8.9%	2,633	8.7%	1,507	10.3%	1,589	9.6%
Marketing and advertising	4,715	14.6%	2,633	9.9%	2,891	9.6%	989	6.7%	1,960	11.9%
Commission expenses	1,569	4.9%	1,251	4.7%	1,352	4.5%	686	4.7%	669	4.1%
Travel and entertainment expenses	3,961	12.3%	1,606	6.0%	1,474	4.9%	602	4.1%	879	5.3%
Delivery and warehouse charges	681	2.1%	669	2.5%	871	2.9%	427	2.9%	437	2.7%
Depreciation and amortization	665	2.1%	686	2.6%	644	2.1%	318	2.2%	326	2.0%
Transportation costs	656	2.0%	483	1.8%	510	1.7%	239	1.6%	232	1.4%
Others*	2,638	8.2%	2,232	8.3%	2,447	8.2%	1,154	7.9%	1,239	7.5%
Total	32,251	100.0%	26,694	100.0%	30,100	100.0%	14,654	100.0%	16,475	100.0%

* Others primarily include staff recruitment, office and telecommunication expenses.

FINANCIAL INFORMATION

General and Administrative Expenses

General and administrative expenses consist primarily of employee benefit expenses, depreciation and amortization and legal and professional fees, as well as other miscellaneous expenses, such as insurance expense, [REDACTED] and auditors’ remuneration. In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, general and administrative expenses accounted for 16.3%, 16.2%, 17.1%, 14.3% and 15.6% of our total revenue, respectively.

The following table sets forth the components of our general and administrative expenses, in absolute amount and as a percentage of total general and administrative expenses, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		June 30, 2021		2022	
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
Employee benefit expenses	7,507	47.8%	6,216	43.5%	9,014	45.2%	4,246	51.9%	4,728	44.0%
Depreciation and amortization	1,744	11.2%	1,698	11.9%	1,525	7.6%	788	9.6%	700	6.5%
Legal and professional fees	1,497	9.5%	2,294	16.0%	1,291	6.5%	643	7.9%	1,003	9.3%
[REDACTED]	–	–	–	–	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
Insurance expense	523	3.3%	600	4.2%	565	2.8%	337	4.1%	328	3.1%
Auditors’ remuneration	457	2.9%	460	3.2%	352	1.8%	291	3.6%	82	0.8%
IT and telecommunication expenses	988	6.3%	899	6.3%	555	2.8%	239	2.9%	173	1.6%
Travel and entertainment expenses	993	6.3%	411	2.8%	314	1.6%	165	2.0%	177	1.6%
Operating lease charges in respect of office premises	302	1.9%	313	2.2%	288	1.4%	155	1.9%	143	1.3%
Other taxes	104	0.7%	136	1.0%	150	0.8%	172	2.1%	58	0.5%
Others*	1,592	10.1%	1,268	8.9%	1,256	6.2%	659	8.0%	747	7.1%
Total	15,707	100.0%	14,295	100.0%	19,958	100.0%	8,187	100.0%	10,738	100.0%

* Others primarily include utilities, staff training & recruitment expenses and miscellaneous office expenses.

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Research and Development Expenses

Our research and development expenses primarily consist of employee benefit expenses, legal and professional fees, materials used in our R&D activities, depreciation and amortization, clinical trial expenses and product registration fees. In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, our research and development expenses accounted for 10.0%, 14.2%, 10.4%, 10.2% and 9.8% of our total revenue for the same year/period, respectively. In each year/period during the Track Record Period, we capitalized US\$0.3 million, US\$2.6 million, US\$0.9 million, US\$0.7 million and US\$0.3 million of our research and development expenses, respectively, while the remaining were recorded as expenses. The following table sets forth the components of our research and development expenses, in absolute amount and as a percentage of total research and development expenses, for the periods indicated:

	For the year ended December 31,						For the six months ended			
	2019		2020		2021		2021		2022	
	<i>(Unaudited)</i>									
	<i>(US\$'000, except percentages)</i>									
Employee benefit expenses	6,687	69.7%	5,634	44.8%	6,206	51.1%	3,079	52.8%	3,547	52.8%
Legal and professional fees	948	9.9%	876	7.0%	701	5.8%	664	11.4%	668	9.9%
Materials	1,391	14.5%	1,251	9.9%	1,153	9.5%	502	8.6%	771	11.5%
Depreciation and amortization	620	6.5%	657	5.3%	828	6.8%	413	7.1%	393	5.8%
(Reversal of clinical trials accruals)/clinical trials expenses	(2,599)	(27.1)%	1,174	9.3%	643	5.3%	306	5.3%	49	0.7%
Product registration fees	441	4.6%	829	6.6%	552	4.5%	279	4.8%	284	4.2%
Outsourced R&D service fees	1,013	10.6%	1,342	10.7%	1,060	8.7%	179	3.1%	594	8.8%
Operating lease charges in respect of office premises	118	1.2%	118	0.9%	157	1.3%	96	1.6%	57	0.8%
Travel and entertainment expenses	333	3.5%	127	1.0%	69	0.6%	22	0.4%	31	0.5%
Others*	641	6.6%	570	4.5%	779	6.4%	287	4.9%	326	5.0%
Total	9,593	100.0%	12,578	100.0%	12,148	100.0%	5,827	100.0%	6,720	100.0%

* Others primarily include utilities and miscellaneous office expenses.

FINANCIAL INFORMATION

Net (Impairment Losses)/Reversal of Impairment Losses on Financial Assets

Impairment losses on financial assets primarily consist of expected loss allowance for trade receivables. In 2019, we recorded impairment losses on financial assets of US\$1.4 million, representing 1.5% of our total revenue for the same period as compared to a net reversal of impairment losses on financial assets of US\$0.9 million and US\$0.1 million in 2020 and 2021, respectively, representing 1.1% and 0.1% of our total revenue for the same periods. In the first six months of 2021, we recorded a net reversal of impairment losses on financial assets of US\$0.2 million, as compared to impairment losses on financial assets of US\$0.4 million in the same period of 2022, representing 0.3% and 0.6% of our total revenue for the same periods.

Finance Costs – Net

Our finance costs primarily consist of (i) interest expense on bank loans (ii) interest on lease liabilities, (iii) interest expense to related companies, and (iv) unwinding of interest on convertible redeemable preferred shares partially offset by interest income from our bank deposit. The following table sets forth the components of our finance costs for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	<i>(Unaudited)</i>				
Finance income					
Interest income from bank deposit	20	11	12	6	249
Interest income from a loan to an employee	1	1	–	–	–
Finance costs					
Interest expenses on bank loans	(381)	(1,258)	(525)	(403)	(11)
Interest expense to related companies	–	(67)	(151)	(128)	–
Interest expenses on lease liabilities	(120)	(77)	(76)	(40)	(57)
Unwinding of interest on convertible redeemable preferred shares	–	–	(4,853)	(476)	(1,336)
Others	(2)	(3)	(2)	(1)	(3)
Total	<u>(482)</u>	<u>(1,393)</u>	<u>(5,595)</u>	<u>(1,042)</u>	<u>(1,158)</u>

FINANCIAL INFORMATION

Fair value changes of convertible redeemable preferred shares and loss on derecognition of financial liabilities in relation to convertible redeemable preferred shares

Our fair value losses on convertible redeemable preferred shares was US\$14.4 million in 2021. The convertible redeemable preferred shares are hybrid instruments which contain an embedded derivative for the conversion feature. The embedded derivative has been bifurcated from the debt host contract and accounted for at fair value with changes in fair value recognized in the consolidated statements of profit or loss.

Loss on derecognition of financial liabilities in relation to convertible redeemable preferred shares was US\$0.6 million in 2021. Upon the completion of the Reorganization on September 28, 2021, the financial liabilities portion of embedded derivative portion of series A preferred shares was derecognized; whereas of series A-2 preferred shares was reclassified to equity, and the difference between the carrying amounts and the fair values of the financial liabilities was recorded in profit or loss.

The fair value changes of these preferred shares are non-cash items that will not recur after the Reorganization on September 28, 2021.

Share of Losses of Investment in a Joint Venture

In 2020, 2021 and the first six months of 2021 and 2022, we recorded share of losses of a joint venture of approximately US\$46,000, US\$207,000, US\$149,000 and US\$71,000, respectively, which reflected our investments in ON P&F which engages in the manufacturing and distribution of heart valve products and our share of such joint venture’s results of operations under equity method of accounting.

Income Tax

Our Group is primarily subject to the Hong Kong profits tax, PRC corporate income tax, Japan corporate income tax and the Netherlands corporate income tax.

The applicable profits tax rate in Hong Kong is 16.5%, 16.5%, 16.5%, 16.5% and 16.5% for the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The statutory corporate income tax rate in the PRC is 25%. However, our PRC operating subsidiary ONM Shenzhen is qualified as the National High and New Technology Enterprise (“**HNTE**”), which was valid for three years from January 1, 2017 to December 31, 2019 and was further renewed on December 11, 2020 with the validity of three years therefrom. As a result, ONM Shenzhen is entitled to a 15% reduced corporate income tax subject to a record-filing to the in-charge tax bureau. ONM Shenzhen had completed the record-filing with Shenzhen local tax bureau, and its applicable corporate income tax rate was 15% throughout the Track Record Period. Moreover, ONM Shenzhen was qualified to apply an extra 75%, 75%, 100%, 100% and 100% of pre-tax deduction for its eligible research and development expenses for the purpose of corporate income tax for the years ended December 31, 2019, 2020, 2021, and for the six months ended June 30, 2021 and 2022, respectively.

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The applicable corporate income tax in Japan is 33.58%, 33.58%, 33.58%, 30.62% and 33.58% for the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, respectively.

For the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, the Netherlands corporate income tax has been provided for at the rate of 25%, 25%, 25%, 25% and 25.8%, respectively, based on the estimated assessable profits of our Netherlands subsidiaries.

For the years ended December 31, 2019 and 2020, our effective income tax rate was 7.3% and 2.5% respectively. The low effective tax rates in 2019 and 2020 was primarily as a result of our utilization of previously unrecognized tax losses and the extra tax deduction for our research and development expenses in the PRC. Loss before income tax in 2021 was mainly due to the fair value loss of convertible redeemable preferred shares, unwinding of interest on convertible redeemable preferred shares and [REDACTED]. In the first six months of 2021 and 2022, our effective income tax rate was 33.3% and 17.1%, respectively. The higher effective tax rate in the first six months of 2021 was primarily due to the fair value loss of convertible redeemable preferred shares recognized in the first six months of 2021 was not tax deductible. There was no such fair value loss in the first six months of 2022.

	For the year ended December 31,			For the six months	
	2019	2020	2021	ended June 30,	2022
	US\$'000	US\$'000	US\$'000	2021	2022
				US\$'000	US\$'000
				(Unaudited)	
Current income tax:					
Current income tax on profits for the year/period	562	688	2,556	1,333	1,106
(Over)/under-provision in prior year/period	(30)	61	(98)	(391)	(190)
Current income tax subtotal	<u>532</u>	<u>749</u>	<u>2,458</u>	<u>942</u>	<u>916</u>
Deferred income tax:					
Relating to the origination and reversal of temporary differences	790	(565)	668	716	736
Recognition of previously unrecognized deferred income tax assets	(773)	–	–	–	–
Deferred income tax subtotal	<u>17</u>	<u>(565)</u>	<u>668</u>	<u>716</u>	<u>736</u>
Income tax expense	<u><u>549</u></u>	<u><u>184</u></u>	<u><u>3,126</u></u>	<u><u>1,658</u></u>	<u><u>1,652</u></u>

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For the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, the Group recorded tax effects attributable to expenses not deductible for tax purposes of US\$1.1 million, US\$0.7 million, US\$1.2 million, US\$1.1 million and US\$0.9 million, respectively. Such effects primarily arose from items including exchange losses for non-trade balances, research and development expenses paid to research institutes that not qualified for tax deduction under applicable tax law, [REDACTED], as well as certain expenses which are considered capital nature and therefore non-deductible.

For the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, the Group recorded tax effects attributable to income not subject to tax of US\$1.2 million, US\$1.7 million, US\$1.3 million, US\$0.6 million and US\$0.5 million, respectively. Such effects primarily arose from items including exchange gains for non-trade balances, effect of super deduction of research and development expenditure, non-taxable government grants, as well as certain income which are considered capital nature and therefore non-taxable.

RESULTS OF OPERATIONS

Six Months ended June 30, 2022 Compared to Six Months ended June 30, 2021

Revenue

Our revenue increased by 20.2% from US\$57.3 million in the first six months of 2021 to US\$68.9 million in the first six months of 2022, primarily attributable to the increase in sales volume of both direct sales and distributor sales. Revenue in our U.S. market increased by US\$2.9 million in the first six months of 2022 due to the increase in sales volume of our coronary balloons as a result of the introduction of our Scoreflex NC series in the U.S. market upon product approval by the FDA in late 2021. In addition, the increase in sales volume of our Scoreflex Trio series in the Japan market, which has the higher average selling price among our scoring balloons, brought in an increase in revenue of US\$2.4 million in the first six months of 2022. Moreover, revenue in the PRC market increased by US\$6.4 million in the first six months of 2022, primarily due to the increase in volume and average selling price for our Scoreflex series as a result of the expansion of our sales networks and change in sales model in the PRC as well as our additional marketing efforts for certain products not subject to the centralized procurement policy.

In terms of product categories sold in relevant periods, our revenue increase in the first six months of 2022 was primarily due to a US\$12.7 million increase in revenue generated from our coronary balloon products, particularly our scoring balloon products, in most markets, including the U.S., Japan, APAC and the PRC.

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Cost of Sales

Our cost of sales increased by 25.6% from US\$16.8 million in the first six months of 2021 to US\$21.1 million in the first six months of 2022, primarily due to (i) an increase in raw material costs from US\$6.9 million in the first six months of 2021 to US\$9.3 million in the first six months of 2022, (ii) an increase in manufacturing costs from US\$3.7 million in the first six months of 2021 to US\$4.4 million in the first six months of 2022, reflecting our higher production and sales volume during the period, and (iii) an increase in direct labor costs from US\$3.6 million in the first six months of 2021 to US\$4.7 million in the first six months of 2022, primarily reflecting increases in number and average salaries of our production staff.

Gross profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by 17.8% from US\$40.5 million in the first six months of 2021 to US\$47.7 million in the first six months of 2022. Gross profit margin was relatively stable in the first six months of 2021 and 2022.

Other Income

Other income decreased by 42.9% from US\$0.7 million in the first six months of 2021 to US\$0.4 million in the first six months of 2022, primarily due to the decrease in government grants that support our R&D activities in the PRC.

Other Gains/(Losses) – net

Other gains/(losses) – net increased from losses of US\$0.5 million in the first six months of 2021 to losses of US\$2.9 million in the first six months of 2022, primarily due to the increase in fair value loss of the Commodity Linked Fixed Rate Note of US\$1.3 million and the increase in net foreign exchange losses of US\$0.7 million, primarily arising from the depreciation of the Japanese Yen against the USD.

Selling and Distribution Expenses

Selling and distribution expenses increased by 12.2% from US\$14.7 million in the first six months of 2021 to US\$16.5 million in the first six months of 2022, primarily due to the increase in marketing expenses as a result of the resumption of marketing activities such as medical congresses and trade shows.

General and Administrative Expenses

General and administrative expenses increased by 30.5% from US\$8.2 million in the first six months of 2021 to US\$10.7 million in the first six months of 2022, primarily due to the increase in [REDACTED] in the first six months of 2022.

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Research and Development Expenses

Research and development expenses increased by 15.5% from US\$5.8 million in the first six months of 2021 to US\$6.7 million in the first six months of 2022, primarily due to the increase in employee benefit expenses as a result of the overall salary increment and the increase in our outsourced R&D service fees in relation to the consultation services for our pipeline products, which were provided to us by individual experts in universities and hospitals as well as professional medical research institutes and consulting companies. Such consultation services included advising on our clinical study design and trial protocol, performing tests and trials of our pipeline products, providing feedback and clinical evaluation of our pipeline products and assisting with respect to our regulatory strategies and/or submissions.

Net (Impairment Losses)/Reversal of Impairment Losses on Financial Assets

Impairment losses on financial assets increased by 354.4% from a net reversal of approximately US\$158,000 in the first six months of 2021 to approximately US\$402,000 in the first six months of 2022, primarily due to the increase in trade receivables in 2022.

Finance Cost – Net

Finance costs – net increased by 20.0% from US\$1.0 million in the first six months of 2021 to US\$1.2 million in the first six months of 2022, primarily due to the increase in unwinding of interest on our convertible redeemable preferred shares from US\$0.5 million in the first six months of 2021 to US\$1.3 million in the first six months of 2022, partially offset by the decrease in bank loan interests from US\$0.4 million in the first six months of 2021 to approximately US\$11,000 in the first six months of 2022 and the increase in interest income from the bank deposit from approximately US\$6,000 in the first six months of 2021 to US\$0.2 million in the first six months of 2022.

Fair Value Changes of Convertible Redeemable Preferred Shares

Our fair value losses on convertible redeemable preferred shares decreased from US\$6.0 million in the first six months of 2021 to nil in the first six months of 2022, due to all convertible redeemable preferred shares have been reclassified to equity upon the fulfilment of conditions attached in the relevant agreement in 2022.

Share of Losses of Investment in a Joint Venture

Share of losses of investment in a joint venture in connection with our investment in ON P&F decreased 52.3% from approximately US\$149,000 in the first six months of 2021 to approximately US\$71,000 the first six months of 2022, primarily due to decrease in net loss of ON P&F as a result of its increase in sales and decrease in research and development expenses in the first six months of 2022 as compared to the same period of 2021.

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Income Tax

We recorded income tax expense of US\$1.7 million and US\$1.7 million with an effective income tax rate of 33.3% and 17.1%, in the first six months of 2021 and 2022, respectively. The higher effective income tax rate in the first six months of 2021 was primarily due to the fair value loss of convertible redeemable preferred shares recognized in the first six months of 2021 was not tax deductible. There was no such fair value loss in the first six months of 2022.

Profit for the Period

As a result of the foregoing, our profit increased by 142.4% from US\$3.3 million in the first six months of 2021 to US\$8.0 million in the first six months of 2022, and our net profit margin was 5.8% in the first six months of 2021 and 11.7% in the first six months of 2022, mainly attributable to the increase in gross profit of US\$7.2 million as a result of the increase in revenue, and we did not incur fair value losses of convertible redeemable preferred shares upon the reclassification to equity in 2022, as compared to US\$6.0 million of such losses in the first six months of 2021, partially offset by the fair value loss of the Commodity Linked Fixed Rate Note of US\$1.3 million, increase in selling and distribution expenses of US\$1.8 million, increase in general and administrative expenses of US\$2.6 million and increase in research and development expenses of US\$0.9 million.

Under non-HKFRS measures, our adjusted profit for the period (non-HKFRS measure) increased by 23.6% from US\$11.0 million in the first six months of 2021 to US\$13.6 million in the first six months of 2022, and our adjusted net profit margin (non-HKFRS measure) increased from 19.2% in the first six months of 2021 to 19.8% in the first six months of 2022, primarily due to the increase in gross profit of US\$7.2 million as a result of the increase in revenue, partially offset by the increase in selling and distribution expenses of US\$1.8 million, the increase in general and administrative expenses of US\$2.6 million and the increase in research and development expenses of US\$0.9 million.

Year ended December 31, 2021 Compared to Year ended December 31, 2020

Revenue

Our revenue increased by 31.6% from US\$88.5 million in 2020 to US\$116.5 million in 2021, primarily attributable to increases in sales volume of both direct sales and distributor sales as a result of the resumption of business activities as the COVID-19 pandemic became stabilized. Revenue in our EMEA market increased by US\$9.7 million in 2021 due to the increases in average selling price and sales volume of our coronary balloon products and atherectomy devices following the increase in number of PCI cases when COVID-19 was stabilized. Moreover, the acquisition of ON AG, our previous distributor in Switzerland in late 2020 also contributed to the increase in revenue as we enjoyed a higher average selling price under the direct sales model in 2021. In addition, the introduction of our new Jade OTW series in the U.S. market in 2021 brought in an increase in revenue of US\$4.2 million. Moreover, the increase in revenue of US\$12.0 million in the PRC market was primarily due to the increase

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in volume and average selling price for scoring coronary balloon due to (i) the expansion of our sales networks in the PRC as a result of the change in sales model from exclusive distributorship to a combination of direct sales and regional distributors in the PRC, (ii) our additional marketing efforts for the scoring coronary balloon which is not subject to the centralized procurement policy, and (iii) the elimination of the intermediate layer of the previous exclusive distributor.

In terms of product categories sold in relevant periods, our revenue increase in 2021 was primarily due to a US\$21.9 million increase in revenue generated from coronary balloon products as demand for our products in most markets, including the PRC, APAC and EMEA recovered when the COVID-19 pandemic became more stable, and to a lesser extent, due to a US\$4.2 million increase in revenue generated from peripheral balloon products in connection with the introduction of our new Jade OTW series in the U.S. market. In terms of contribution by different markets, our revenue increase in 2021 was primarily due to a US\$9.7 million increase in revenue generated from the EMEA market for coronary balloons, microcatheters and atherectomy devices as well as a US\$12.0 million increase in revenue from the PRC in connection with the expansion of our sales network in the PRC.

Cost of Sales

Our cost of sales increased by 15.9% from US\$30.5 million in 2020 to US\$35.3 million in 2021, primarily due to (i) an increase in raw material costs from US\$15.0 million in 2020 to US\$15.5 million in 2021, reflecting our higher production and sales volume during the period; (ii) an increase in direct labor costs from US\$5.7 million in 2020 to US\$7.4 million in 2021, primarily reflecting increases in headcount and average salaries of our production staff; and (iii) an increase in purchase costs of third party products from US\$1.6 million in 2020 to US\$3.0 million in 2021, primarily resulting from increase in sales volume of third party products.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by 40.0% from US\$58.0 million in 2020 to US\$81.2 million in 2021. Gross profit margin increased from 65.6% in 2020 to 69.7% in 2021, primarily attributable to improvement in the average selling prices of our balloon products due to the introduction of our new Sapphire 3 and Sapphire NC 24 balloon products, as well as the improvement in the average selling prices of our COMBO Plus dual therapy stent products due to our entering into the Japan market which enjoys a higher average selling price and gross profit margin. Besides, sales volume of our scoring balloons, which have higher average selling price and gross profit margin, increased in connection with the expansion of our sales network in the PRC.

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Other Income

Other income decreased by 41.7% from US\$2.4 million in 2020 to US\$1.4 million in 2021, primarily due to the decrease in government grants that support our R&D activities in the PRC.

Selling and Distribution Expenses

Selling and distribution expenses increased by 12.7% from US\$26.7 million in 2020 to US\$30.1 million in 2021, primarily due to the setup of our own PRC sales and marketing team.

General and Administrative Expenses

General and administrative expenses increased by 39.9% from US\$14.3 million in 2020 to US\$20.0 million in 2021, primarily due to the increase in employee benefit expenses as a result of our increased headcount and the overall salary increment. Due to COVID-19, the PRC government granted a one-off waiver of social security expenses of our Shenzhen subsidiary in year 2020 and resulted in lower employee benefit expenses. [REDACTED] incurred in 2021 but not 2020 also contributed to the increase in general and administrative expenses.

Research and Development Expenses

Research and development expenses remained relatively stable in 2020 and 2021, and we recorded research and development expenses of US\$12.6 million and US\$12.1 million in 2020 and 2021, respectively.

Net (Impairment Losses)/ Reversal of Impairment Losses on Financial Assets

We recorded net reversal of impairment losses on financial assets of US\$0.9 million in 2020 and net reversal of impairment losses on financial assets of US\$0.1 million in 2021, primarily due to the reversal of trade receivable provisions as a result of our improvement in expected credit loss in 2021.

Finance Costs – Net

Finance costs – net increased by 300.0% from US\$1.4 million in 2020 to US\$5.6 million in 2021, primarily due to unwinding of interest on our convertible redeemable preferred shares of US\$4.9 million in 2021.

Fair Value Changes of Convertible Redeemable Preferred Shares

Our fair value losses on convertible redeemable preferred shares was US\$14.4 million in 2021, primarily due to the increased fair value of the convertible redeemable preferred shares.

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Share of Losses of Investment in a Joint Venture

We recorded share of losses of investment in a joint venture of US\$0.2 million in 2021 in connection with our investment in ON P&F, as ON P&F recorded a loss of US\$0.4 million primarily attributable to employee benefits expenses and product testing fees.

Income Tax

Income tax expense increased from US\$0.2 million in 2020 to US\$3.1 million in 2021, primarily due to an increase in profit before tax of our subsidiaries.

Our effective income tax rate in 2020 was 2.5%. Loss before tax in 2021 was mainly due to the fair value loss of convertible redeemable preferred shares, unwinding of interest on convertible redeemable preferred shares and [REDACTED].

Profit for the Year

As a result of the foregoing, our profit decreased from US\$7.1 million in 2020 to a net loss of US\$4.4 million in 2021, and our net profit/(loss) margin was 8.0% in 2020 and (3.8)% in 2021.

Under non-HKFRS measures, our adjusted profit (non-HKFRS measure) increased by 201.4% from US\$7.1 million in 2020 to US\$21.4 million in 2021, and our adjusted net profit margin (non-HKFRS measure) increased from 8.0% in 2020 to 18.3% in 2021, primarily due to increase in gross profit as a result of increase in revenue, and our relatively stable expenses (excluding reconciling items under non-HKFRS measure) in 2021 as compared to 2020.

Year ended December 31, 2020 Compared to Year ended December 31, 2019

Revenue

Our revenue decreased by 8.1% from US\$96.3 million in 2019 to US\$88.5 million in 2020, primarily attributable to decreases in sales volume in most of our products as affected by the COVID-19 pandemic which slowed down business activities comprehensively. Other than the U.S. market, our sales volume decreased in all other regions in 2020. On the other hand, the average selling price for our balloon products also decreased slightly in 2020, which was partially offset by the launch of new COMBO Plus dual therapy stent products in Japan as such products enjoyed a relatively higher average selling price.

In terms of product categories sold in relevant periods, our revenue decrease in 2020 was primarily due to a US\$9.5 million decrease in revenue generated from coronary balloon products which was mainly the impact of the COVID-19 pandemic that led to a lower number of PCI surgeries performed and reduced the consumption of our products, as well as a decrease in the average selling prices of our products reflecting the product mix sold and the contribution by different markets in relevant periods, partially offset by a US\$1.1 million

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increase in revenue generated from coronary stent products in connection with the introduction of COMBO Plus products in Japan which had a higher average selling price. In terms of contribution by different markets, our revenue decrease in 2020 was primarily due to an overall decrease in revenue generated from the PRC, Japan, EMEA and APAC which was mainly affected by the COVID-19 pandemic, partially offset by a US\$3.0 million increase in revenue generated from the U.S. in connection with the increased sales volume of coronary balloons and microcatheters along with our increased hospital coverage in the U.S.

Cost of Sales

Our cost of sales decreased slightly from US\$30.9 million in 2019 to US\$30.5 million in 2020, primarily due to a decrease in direct labor costs from US\$5.9 million in 2019 to US\$5.7 million in 2020 and a decrease in manufacturing costs from US\$7.8 million in 2019 to US\$7.1 million in 2020 reflecting the decrease of production due to the lower market demand in 2020, partially offset by an increase in raw material costs from US\$14.7 million in 2019 to US\$15.0 million in 2020 due to the general increase in raw material prices in 2020 as the raw material cost for our COMBO Plus dual therapy stent products was higher.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by 11.3% from US\$65.4 million in 2019 to US\$58.0 million in 2020. Gross profit margin also decreased from 67.9% in 2019 to 65.6% in 2020, primarily attributable to an overall decrease in average selling price of our Sapphire series and Scoreflex series balloons in 2020.

Other Income

Other income increased by 100.0% from US\$1.2 million in 2019 to US\$2.4 million in 2020, primarily due to an increase in government grants received by ONM Shenzhen from local government to support our R&D activities.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 17.3% from US\$32.3 million in 2019 to US\$26.7 million in 2020, primarily due to the slowdown of business activities and decreased sales volume in 2020 as affected by the COVID-19 pandemic, which led to less marketing activities, lower royalty and travel and entertainment expenses in 2020.

General and Administrative Expenses

General and administrative expenses decreased by 8.9% from US\$15.7 million in 2019 to US\$14.3 million in 2020, primarily due to a decrease in employee benefit expenses due to the departure of certain former senior management, a decrease in headcount of our U.S. office

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which has a higher average salary and reduction of bonuses paid to our employees as a result of decreased revenue due to the COVID-19 pandemic, partially offset by an increase in legal and professional fees in connection with our acquisition of ON AG.

Research and Development Expenses

Research and development expenses increased by 31.3% from US\$9.6 million in 2019 to US\$12.6 million in 2020, primarily due to the increase in clinical trial expenses from a net reversal of US\$2.6 million in 2019 to an expense of US\$1.2 million in 2020. Upon the approval of COMBO Plus dual therapy stent by PMDA in Japan in 2019, our management reassessed the related clinical trial expenses accrued with suppliers, which resulted in a net credit of US\$2.6 million in 2019.

Net (Impairment Losses)/Reversal of Impairment Losses on Financial Assets

We recorded net impairment losses on financial assets of US\$1.4 million in 2019 and net reversal of impairment losses on financial assets of US\$0.9 million in 2020, primarily due to the reversal of trade receivable provisions as a result of our improvement in expected credit loss in 2020.

Finance Costs – Net

Finance costs – net increased by 180% from US\$0.5 million in 2019 to US\$1.4 million in 2020, primarily due to increase in average bank loan balance in 2020.

Share of Losses of Investment in a Joint Venture

We recorded share of losses of investment in a joint venture of US\$46,000 in 2020 in connection with our investment in ON P&F, as ON P&F recorded a loss of US\$92,000 primarily attributable to employee benefits expenses and legal and professional fees.

Income Tax

Income tax expense decreased by 60.0% from US\$0.5 million in 2019 to US\$0.2 million in 2020, and effective income tax rate decreased from 7.3% to 2.5% in 2019 and 2020, primarily due to extra tax deduction for research and development expenses granted by the PRC government to support R&D activities.

Profit for the Year

As a result of the foregoing, our profit was US\$7.0 million in 2019 as compared to US\$7.1 million in 2020, and our net profit margin increased from 7.2% in 2019 to 8.0% in 2020.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity have been cash from operations and financing. Our principal uses of cash have been, and are expected to be, capital expenditures for the expansion of our business and working capital. We expect to fund our future operations and expansion plans principally with cash generated from our operations and equity financing, net [REDACTED] from the [REDACTED] and other funds raised from capital markets from time to time, when necessary. While our current inventory and trade receivables turnover days are relatively long and our trade payables turnover days is relatively short, which may result in a higher working capital requirement on our Group, we recorded operating profits and positive cash flow during the Track Record Period and do not expect such requirement to have material adverse impact on our operations. To better manage such working capital requirement, we will continue to carefully manage our account receivables and inventory level to gradually reduce the turnover days.

Cash Flow

The following table sets forth a summary of our net cash flow for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(Unaudited)</i>	
Net cash generated from operating activities	1,590	12,666	20,498	14,287	13,924
Net cash used in investing activities	(3,053)	(11,245)	(5,219)	(1,516)	(56,177)
Net cash generated from/(used in) financing activities	1,205	(473)	146,308	24,650	(852)
Net (decrease)/increase in cash and cash equivalents	(258)	948	161,587	37,421	(43,105)
Cash and cash equivalents at beginning of year/period	13,812	13,631	15,112	15,112	175,886
Effects of exchange rate changes on cash and cash equivalents	77	533	(813)	(873)	(1,162)
Cash and cash equivalents at end of year/period	<u>13,631</u>	<u>15,112</u>	<u>175,886</u>	<u>51,660</u>	<u>131,619</u>

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Net Cash generated from Operating Activities

Cash inflows from our operating activities consist primarily of cash received for sales of our products. Cash outflows from our operating activities consist primarily of employee benefit expenses, procurement of raw materials, research and development expenses, administrative expenses and other operating expenses. Our net cash flows from operating activities reflect our profit before income tax as adjusted for (i) non-cash or non-operating income and expenses, (ii) changes in certain working capital items such as trade receivables, inventories, trade payables, accruals and other payables and (iii) income tax expenses paid.

Net cash generated from operating activities in the first six months of 2022 was US\$13.9 million, mainly representing profit before income tax of US\$9.7 million, adjusted by depreciation of property, plant and equipment of US\$1.0 million, share options granted to directors and employees of US\$0.4 million, interest expense of US\$1.4 million, fair value losses of the Commodity Linked Fixed Rate Note of US\$1.3 million, increase in trade payable of US\$1.7 million, increase in accruals and other payables of US\$2.6 million, partially offset by an increase in trade receivables of US\$5.7 million, an increase in inventories of US\$1.2 million and an increase in deposits, prepayments and other receivables of US\$1.1 million.

Net cash generated from operating activities in 2021 was US\$20.5 million, mainly representing loss before income tax of US\$1.3 million, adjusted by depreciation of property, plant and equipment of US\$2.3 million, share options granted to directors and employees of US\$1.3 million, interest expense of US\$5.6 million, fair value losses of convertible redeemable preferred shares of US\$14.4 million, loss on derecognition of financial liability in relation to convertible redeemable preferred shares of US\$0.6 million, partially offset by an increase in trade receivables of US\$1.7 million, an increase in inventories of US\$1.6 million and an increase in deposits, prepayments and other receivables of US\$0.8 million.

Net cash generated from operating activities in 2020 was US\$12.7 million, mainly representing profit before income tax of US\$7.3 million, adjusted by depreciation of property, plant and equipment of US\$2.5 million, net unrealized foreign exchange gains of US\$1.7 million and interest expense of US\$1.4 million, as well as a decrease in trade receivables of US\$8.6 million, partially offset by a decrease in trade payables of US\$2.2 million.

Net cash generated from operating activities in 2019 was US\$1.6 million, mainly representing profit before income tax of US\$7.5 million, adjusted by depreciation of property, plant and equipment of US\$2.4 million, depreciation of right-of-use assets of US\$1.6 million and the net impairment losses on financial assets of US\$1.4 million, as well as a decrease in accruals and other payables of US\$6.5 million and a decrease in trade receivables of US\$3.2 million, partially offset by a decrease in deposits, prepayments and other receivables of US\$2.5 million.

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Net Cash used in Investing Activities

Net cash used in investing activities in the first six months of 2022 was US\$56.2 million, primarily due to a US\$20.0 million purchase of the Commodity Linked Fixed Rate Note, an increase in the short-term and pledged bank deposit of US\$20.0 million and US\$15.0 million respectively, a US\$0.9 million purchase of property, plant and equipment and a US\$0.3 million purchase of intangible assets.

Net cash used in investing activities in 2021 was US\$5.2 million, primarily due to a US\$3.0 million advance to a joint venture, a US\$1.2 million purchase of property, plant and equipment and a US\$0.9 million purchase of intangible assets.

Net cash used in investing activities in 2020 was US\$11.2 million, primarily due to a US\$5.1 million capital contribution to a joint venture, a US\$2.8 million purchase of intangible assets and a US\$2.2 million payment for acquisition of a subsidiary.

Net cash used in investing activities in 2019 was US\$3.1 million, primarily due to a US\$2.7 million purchase of property, plant and equipment.

Net Cash generated from Financing Activities

Net cash used in financing activities in the first six months of 2022 was US\$0.9 million, primarily due to the repayment of finance lease liabilities.

Net cash generated from financing activities in 2021 was US\$146.3 million, primarily due to a net proceeds of US\$199.0 million from issuance of convertible redeemable preferred shares of a subsidiary, partially offset by a US\$39.9 million net repayment of bank borrowings and a US\$10.4 million repayment of loans from related companies.

Net cash used in financing activities in 2020 was US\$0.5 million, primarily due to a US\$4.0 million repayment to a related company and a US\$3.4 million repayment of bank borrowings, partially offset by a US\$5.1 million proceeds from loans from related companies.

Net cash generated from financing activities in 2019 was US\$1.2 million, primarily due to a US\$38.5 million proceeds from bank borrowings, partially offset by a US\$35.3 million repayment to a related company.

Capital Expenditures

Capital expenditures principally consist of expenditures for the purchases of property, plant and equipment, intangible assets and right-of-use assets. During the Track Record Period, we financed our capital expenditures primarily through cash flow from operations.

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In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, we made the following capital expenditures:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(Unaudited)</i>	
Additions to intangible assets	338	3,785	894	668	271
Additions to property, plant and equipment	2,230	1,003	1,051	604	815
Additions to right-of-use assets	378	278	2,119	1,175	141
Total	2,946	5,066	4,064	2,447	1,227

Current Assets and Current Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of	As of
	2019	2020	2021	June 30, 2022	October 31, 2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					<i>(unaudited)</i>
Current assets					
Inventories	26,036	30,038	29,570	27,900	27,900
Trade receivables	32,609	26,316	26,804	29,700	29,128
Deposits, prepayments and other receivables	1,332	2,077	2,796	3,925	5,397
Amounts due from joint ventures	–	90	11	22	480
Amounts due from related companies	177	326	–	–	–
Tax recoverable	392	508	288	202	200
Pledged bank deposit	–	–	–	15,000	15,000
Short-term bank deposit	–	–	–	20,000	94,000
Cash and cash equivalents	13,631	15,112	175,886	131,619	57,571
Total current assets	74,177	74,467	235,355	228,368	229,676

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	As of December 31,			As of	As of
	2019	2020	2021	June 30, 2022	October 31, 2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					<i>(unaudited)</i>
Current liabilities					
Trade payables	3,506	1,364	2,174	3,875	3,579
Accruals and other payables	13,023	12,761	11,866	14,217	12,683
Amount due to a joint venture	–	–	–	129	–
Amount due to a related company	88,193	–	–	–	–
Current income tax liabilities	27	521	927	1,572	1,153
Bank borrowings	38,462	39,898	–	–	–
Lease liabilities	1,470	922	1,483	1,396	1,723
	<u>144,681</u>	<u>55,466</u>	<u>16,450</u>	<u>21,189</u>	<u>19,138</u>
Total current liabilities					
	<u>(70,504)</u>	<u>19,001</u>	<u>218,905</u>	<u>207,179</u>	<u>210,538</u>
Net current (liabilities)/assets					

We had net current assets of US\$210.5 million as of October 31, 2022 as compared with net current assets of US\$207.2 million as of June 30, 2022. The increase in net current assets was primarily attributable to the net profit generated during the period from July 2022 to October 2022.

We had net current assets of US\$207.2 million as of June 30, 2022 as compared with net current assets of US\$218.9 million as of December 31, 2021. The slight decrease in net current assets was primarily attributable to the purchase of the Commodity Linked Fixed Rate Note of US\$20.0 million, which was classified as a non-current asset, partially offset by the net cash generated from operations.

We had net current assets of US\$218.9 million as of December 31, 2021 as compared with net current assets of US\$19.0 million as of December 31, 2020. The increase in net current assets was primarily attributable to the receipt of US\$202.5 million from our Series A and Series A-2 financing in 2021.

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We had net current assets of US\$19.0 million as of December 31, 2020 as compared with net current liabilities of US\$70.5 million as of December 31, 2019. The change from net current liabilities to net current assets was primarily attributable to the waiver of an amount due to a related company as deemed contribution of US\$88.2 million in the current liabilities and the recognition of such amount as other reserves in equity in 2020.

Our net current liabilities as of December 31, 2019 were primarily attributable to amount due to a related company and certain bank borrowings to support our research and development and other operating activities.

We do not expect a net current liability position in the foreseeable future, taking into account (i) the proceeds from our Series A financing and Series A-2 financing, (ii) the net [REDACTED] from the [REDACTED], and (iii) our operating cash inflow.

We had accumulated losses of US\$145.1 million, US\$137.9 million, US\$142.7 million and US\$134.4 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The significant amount of accumulated losses during the Track Record Period primarily contributed by our significant investment in R&D activities prior to the Track Record Period. Specifically, a substantial portion of such R&D expenses were used in the development of our COMBO and COMBO Plus dual therapy stents, which commenced in 2006. The relevant products obtained approval of CE Mark in 2016, approval by PMDA in Japan in 2019 and approval by NMPA in the PRC in 2020, respectively, and prior to these approvals we conducted a total of ten clinical trials as well as various studies in Europe, Japan, the PRC, the U.S. and certain Asia Pacific countries and regions with over 9,500 subjects enrolled under relevant trials and studies since 2006. A substantial majority of the related R&D and clinical trial expenses were paid and the total R&D and clinical trial expenses of COMBO and COMBO Plus and its older product versions accumulated to over US\$100.0 million by the end of 2018. As a result, we recorded accumulated losses of US\$152.2 million as of January 1, 2019 (being the beginning of the Track Record Period).

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DISCUSSION OF CERTAIN KEY ITEMS OF CONSOLIDATED BALANCE SHEETS

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>2022</i>
				<i>US\$'000</i>
Non-current assets				
Property, plant and equipment	11,994	10,485	8,874	8,219
Right-of-use assets	3,414	2,066	4,567	4,583
Deferred income tax assets	2,967	3,539	2,859	2,123
Financial assets at fair value				
through profit or loss	1,829	2,048	2,041	20,527
Intangible assets	335	3,966	4,267	4,138
Goodwill	–	1,749	1,749	1,749
Investment in a joint venture	–	5,051	7,888	7,817
Deposits, prepayments and other receivables	976	275	927	1,256
Total non-current assets	21,515	29,179	33,172	50,412
Current assets				
Inventories	26,036	30,038	29,570	27,900
Trade receivables	32,609	26,316	26,804	29,700
Deposits, prepayments and other receivables	1,332	2,077	2,796	3,925
Amounts due from joint ventures	–	90	11	22
Amounts due from related companies	177	326	–	–
Tax recoverable	392	508	288	202
Pledged bank deposit	–	–	–	15,000
Short-term bank deposit	–	–	–	20,000
Cash and cash equivalents	13,631	15,112	175,886	131,619
Total current assets	74,177	74,467	235,355	228,368
Total assets	95,692	103,646	268,527	278,780

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	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022 <i>US\$'000</i>
Non-current liabilities				
Lease liabilities	1,285	557	2,499	2,657
Convertible redeemable preferred shares	–	–	63,711	–
Retirement benefit obligations	2,227	2,541	2,755	2,208
Loan from related companies	–	10,186	–	–
Amount due to a related company	99,790	–	–	–
Total non-current liabilities	103,302	13,284	68,965	4,865
Current liabilities				
Trade payables	3,506	1,364	2,174	3,875
Accruals and other payables	13,023	12,761	11,866	14,217
Amount due to a joint venture	–	–	–	129
Amount due to a related company	88,193	–	–	–
Current income tax liabilities	27	521	927	1,572
Bank borrowings	38,462	39,898	–	–
Lease liabilities	1,470	922	1,483	1,396
Total current liabilities	144,681	55,466	16,450	21,189
Total liabilities	247,983	68,750	85,415	26,054

Property, Plant and Equipment

Our property, plant and equipment decreased by US\$0.7 million from US\$8.9 million as of December 31, 2021 to US\$8.2 million as of June 30, 2022 primarily due to the depreciation of our property, plant and equipment during the relevant period.

Our property, plant and equipment decreased by US\$1.6 million from US\$10.5 million as of December 31, 2020 to US\$8.9 million as of December 31, 2021, primarily due to the depreciation of our property, plant and equipment during the relevant period.

Our property, plant and equipment decreased by US\$1.5 million from US\$12.0 million as of December 31, 2019 to US\$10.5 million as of December 31, 2020, primarily due to the depreciation of our property, plant and equipment during the relevant year.

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Right-of-use Assets

We had right-of-use assets of US\$4.6 million as of June 30, 2022. Balances of right-of-use assets as of June 30, 2022 and December 31, 2021 remained relatively stable.

We had right-of-use assets of US\$4.6 million as of December 31, 2021. The increase from December 31, 2020 was mainly because new leases signed and lease renewal during the year.

We had right-of-use assets of US\$2.1 million as of December 31, 2020. The decrease from December 31, 2019 was mainly because of depreciation in accordance with the lease terms.

For details of our right-of-use assets, please refer to Note 15 in Appendix I to this document.

Financial Assets at Fair Value through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss primarily consisted of life insurance policies and the Commodity Linked Fixed Rate Note. The Commodity Linked Fixed Rate Note, with an underlying commodity of EU Emissions Allowances, was issued by a reputable international investment bank with a fixed coupon rate of 2.8% upon maturity in December 2023. We recorded financial assets at fair value through profit or loss of US\$1.8 million, US\$2.0 million, US\$2.0 million and US\$20.5 million as of December 31, 2019, 2020, 2021 and June 30, 2022. The significant increase from December 31, 2021 to June 30, 2022 was primarily due to the purchase of the Commodity Linked Fixed Rate Note of US\$20.0 million for the purpose of generating interest income with minimal credit and liquidity risk, partially offset by the fair value loss thereof.

In order to minimize the risks in relation to our investments in financial assets while generating a reasonable return, we primarily target to invest in low-risk wealth management products. Specifically, our investment policies/strategies and internal control mechanism includes: (i) the wealth management products in which we invest should be issued by reputable financial institutions with principal guaranteed and an overall low-risk profile, and should be no more than two years to ensure liquidity safety; (ii) each investment decision should be made by taking into account the working capital requirement; (iii) when considering each investment, we prudently benchmark against other similar wealth management products issued by multiple financial institutions in order to reduce the risks arising from the fluctuation of loss and gain of such wealth management products; (iv) the Board reviews each investment proposal by taking into account multiple factors, including total investment amount, duration, expected rate of return, background of the issuers and other terms on a case-by-case basis, and the Board’s prior approval is required for making each investment; and (v) subsequent to making the investments, we designate personnel to regularly track the performance of the wealth management products and such designated personnel should timely report to the Board if any anomaly is detected in order to avoid or reduce investment losses.

Our Group’s investment in financial assets at fair value through profit or loss will be subject to compliance with Chapter 14 of the Rules after the [REDACTED].

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Goodwill

We recorded goodwill of US\$1.7 million, US\$1.7 million and US\$1.7 million as of December 31, 2020, December 31, 2021 and June 30, 2022, respectively. Goodwill arising on the acquisition of subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

Our goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (“CGUs”) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

In addition, an impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount of the CGU is determined based on a value-in-use calculation. The calculation uses cash flow projections prepared based on financial budgets approved by the management covering a period of three years. Cash flows beyond the budget period is extrapolated using an estimated growth rate that does not exceed the long-term average growth rate in which the CGU operates.

The key parameters used for impairment testing are as follows:

	As of December 31,		As of
	2020	2021	June 30,
			2022
Revenue growth rate	-5.1% to 28.9%	20.2%	20.7% to 27.5%
Gross margin	56.0%	35.9%	35.9%
Profit margin	12.5% to 17.2%	9.8% to 10.9%	6.8% to 10.8%
Terminal growth rate	0.0%	0.0%	0.0%
Pre-tax-discount rate	30.6%	32.9%	32.9%

When performing impairment testing, due to the outbreak of COVID-19, our Directors considered the revenue growth rate for the acquired subsidiary would be negative in the initial years of acquisition, and will only turn around at a later time. As such, the forecasted revenue growth rate ranges from -5.1% to 28.9% during the forecast period for the purpose of goodwill impairment testing performed at December 31, 2020.

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As at December 31, 2020, 2021 and June 30, 2022, the recoverable amount calculated based on the value-in-use calculation exceeded the carrying amount of the CGU by approximately US\$184,000, US\$178,000 and US\$165,000, respectively. Our Directors performed sensitivity analysis based on the key assumptions and considered that a reasonable possible changes on the key assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount. For details on the impairment assessment methods for our intangible assets (including goodwill), please see Notes 2.7 and 2.8 to Appendix I to this document.

With all other variable held constant, our management estimates that the headroom would drop to zero as of December 31, 2020 and 2021, respectively.

	As of December 31, 2020	2021	As of June 30, 2022
Revenue growth rate	Decrease to -8.6% to 25.4%	Decrease to 19.2%	Decrease to 19.6% to 26.0%
Gross margin	Decrease to 53.0%	Decrease to 35.2%	Decrease to 35.4%
Profit margin	Decrease to 11.3% to 15.3%	Decrease to 9.3% to 10.3%	Decrease to 6.5% to 10.3%
Pre-tax discount rate	Increase to 35.7%	Increase to 37.6%	Increase to 36.4%

Inventories

The following table sets forth the components of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials	14,251	14,659	14,130	14,210
Work in progress	3,005	3,205	2,597	3,293
Finished goods	8,828	12,238	13,118	11,426
Inventories – gross	26,084	30,102	29,845	28,929
Less: Provision for inventories	(48)	(64)	(275)	(1,029)
	<u>26,036</u>	<u>30,038</u>	<u>29,570</u>	<u>27,900</u>

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Our inventories remained stable at US\$30.0 million, US\$29.6 million and US\$27.9 million as of December 31, 2020 and 2021 and June 30, 2022, respectively. Our provision for inventories increased from approximately US\$64,000 as of December 31, 2020 to approximately US\$275,000 as of December 31, 2021 and further increased to US\$1.0 million as of June 30, 2022, primarily due to the increase in provision for our COMBO Plus products. We strategically increased our inventory level of raw materials, work in progress and finished goods in 2021 in preparation of a rising demand when the COVID-19 pandemic become stabilized.

Our inventories increased from US\$26.0 million as of December 31, 2019 to US\$30.0 million as of December 31, 2020, primarily due to the increase in inventories for our COMBO Plus dual therapy stent products as of result of its product launch in Japan, as well as an increase in stock of our balloon products and an increase in raw material of our Shenzhen subsidiary in preparation of a rising demand when the COVID-19 pandemic became stabilized.

The following table sets forth an aging analysis of our inventory as of June 30, 2022:

Inventory aging analysis as at June 30, 2022	0-12 months	13-24 months	over 24 months	Total amount
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials	10,731	1,474	2,005	14,210
Work-in-progress	3,290	3	–	3,293
Finished goods	9,505	1,802	119	11,426
	<u>23,526</u>	<u>3,279</u>	<u>2,124</u>	<u>28,929</u>
Less: Provision for impairment	(252)	(684)	(93)	(1,029)
Inventories, net	<u><u>23,274</u></u>	<u><u>2,595</u></u>	<u><u>2,031</u></u>	<u><u>27,900</u></u>

As of June 30, 2022, US\$10.7 million, or 75.5% of raw materials aged below 1 year. The useful lives of these raw materials are relatively long with no definite expiry dates. In order to avoid shortage of raw material and reduce unit costs, we order certain raw materials in large quantities which can support our production for up to 2 years. Besides, long aged raw materials also included raw materials for R&D projects, which may last for 3 to 5 years.

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The following table sets forth the subsequent sales of our finished goods as of June 30, 2022:

	0-12 months	13-24 months	over 24 months	Total amount
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Finished goods	9,505	1,802	119	11,426
Less: Provision for impairment	(252)	(679)	(93)	(1,024)
Finished goods, net	<u>9,253</u>	<u>1,123</u>	<u>26</u>	<u>10,402</u>
Subsequent sales of finished goods up to November 27, 2022	5,197	290	33	5,520

As of June 30, 2022, US\$9.3 million, or 89.0% of finished goods, net aged below 1 year. Our coronary and peripheral interventional products generally have shelf lives ranging from approximately 1.5 to 2 years. Finished goods aged over 2 years primarily represented atherectomy devices with 5 years of useful lives.

The following table sets forth our inventory turnover days for the periods indicated:

	For the year ended December 31,			For the six months ended
	2019	2020	2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Average balance of inventories	25,534	28,093	29,974	29,387
Cost of sales	30,895	30,452	35,290	21,137
Turnover days*	302	337	310	250

* Calculated by dividing the average balance of gross inventories by cost of sales for the relevant period multiplied by 365 days or 180 days, where applicable. Average balance equals the sum of the beginning balance and ending balance for the year divided by two.

During the Track Record Period, our inventories were mainly accounted for our raw materials and finished goods.

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For raw materials, we strategically maintained a higher level of raw materials to ensure our production activities are not disrupted due to shortage of key raw materials. We have established a set of Standard Operating Policies and Work Instructions to govern the purchase, processing, monitoring and recording of inventories. Before a raw material purchase request was initiated, the operation team would take reference to a rolling production plan to determine the type and quantity of raw materials required.

For finished goods, we generally offer hospitals under consignment sales arrangement a full range of products with different sizes to ensure our customers’ needs are satisfied. To ensure there is no excessive write off due to expiry, we regularly perform stock take and review the condition of our products.

The combine effect of the above thereby leads to a higher overall inventory turnover days.

Our inventory turnover days increased from 302 days in 2019 to 337 days in 2020 primarily attributable to (i) the high level of inventories maintained by us in anticipation for the launch of COMBO Plus products in Japan, and (ii) an increase in inventories of the balloon and stent products and an increase in raw materials in preparation of a rising customer demand. Our inventory turnover days decreased slightly to 310 days in 2021 and further decreased to 250 days in the first six months of 2022, primarily attributable to the increasing sales volume and cost of sales during the period from December 31, 2020 to June 30, 2022. The relatively high number of inventory turnover days during the Track Record Period was primarily attributable to the sale of products manufactured by our PRC and Netherlands facilities in both EMEA and APAC markets, which took longer delivery time as compared to companies that produce and deliver their products within the same territories, and the increase in finished goods and raw materials of the balloon and stent products in preparation of a rising customer demand.

69.7% or US\$19.5 million of our total inventories as of June 30, 2022 had been subsequently used or sold as of November 27, 2022. We believe that our inventories were recoverable and sufficient impairment provision for such inventories were made as of June 30, 2022, based on the following:

- (i) the useful lives of the raw materials used by the Group are relatively long with no definite expiry dates and the shelf lives of the finished goods range from approximately 1.5 to 2 years;
- (ii) the revenue of the Company has been increasing steadily since 2020 and its inventory turnover days have been improving from 337 days in 2020 to 310 days in 2021 and further improved to 250 days in the first six months of 2022, which indicates a continued increase in market demand for the Company’s products and improving inventory management by the Company;

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- (iii) approximately 89.0%, or US\$9.3 million, of the Company’s finished goods as of June 30, 2022 were aged less than 1 year; and
- (iv) up to November 27, 2022, US\$0.8 million of the Company’s finished goods as of June 30, 2022 aged over 1 year remained unsold, and it only accounted for 3.0% of the Company’s inventories as of June 30, 2022.

Trade Receivables

The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables	35,475	28,406	28,391	31,558
Loss allowance	<u>(2,866)</u>	<u>(2,090)</u>	<u>(1,587)</u>	<u>(1,858)</u>
Trade receivables – net	<u>32,609</u>	<u>26,316</u>	<u>26,804</u>	<u>29,700</u>

Our trade receivables increased by 10.8% from US\$26.8 million as of December 31, 2021 to US\$29.7 million as of June 30, 2022, primarily due to the increase in our revenue in the first six months of 2022. Our trade receivables were relatively stable in 2020 and 2021.

Our trade receivables decreased by 19.3% from US\$32.6 million as of December 31, 2019 to US\$26.3 million as of December 31, 2020, primarily due to the decrease in our revenue in 2020 and the settlement of long aged trade receivables from certain of our customers in Europe and the PRC.

We make provisions for impairment of trade receivables based on our assessment of risk of default and expected losses. For the first six months of 2022, we made provisions for impairment of trade receivables of US\$0.4 million. In the year ended December 31, 2020 and 2021, we reversed impairment of trade receivables which amounted to US\$0.9 million and US\$0.1 million, respectively, while we made provisions for impairment of trade receivables of US\$1.4 million in the year ended December 31, 2019. Subsequent to the Track Record Period, we have received settlement of trade receivables of US\$25.2 million as of November 27, 2022, representing 84.8% of our trade receivables as of June 30, 2022.

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The following table sets forth an aging analysis of our trade receivables based on invoice date as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022
				<i>US\$'000</i>
0 to 30 days	10,221	7,935	11,493	10,790
31 to 60 days	6,483	6,409	6,770	8,180
61 to 90 days	7,189	5,435	4,704	4,592
Over 90 days	11,582	8,627	5,424	7,996
	<u>35,475</u>	<u>28,406</u>	<u>28,391</u>	<u>31,558</u>

We generally grant customers credit periods ranging from 30 to 180 days. We determine the credit terms for our customers on a case-by-case basis, taking into account a customer’s credit history, ability to pay and operating environment.

The following table sets forth the turnover days for trade receivables from customers for the periods indicated:

	For the year ended December 31,			As of
	2019	2020	2021	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022
				<i>US\$'000</i>
Average balance of trade				
receivables	33,960	31,941	28,399	29,975
Revenue	96,342	88,472	116,462	68,851
Turnover days*	<u>129</u>	<u>132</u>	<u>89</u>	<u>78</u>

* Calculated by dividing the average balance of gross trade receivables from customers by the corresponding revenue for the relevant period multiplied by 365 days or 180 days, where applicable. Average balance equals the sum of the beginning balance and ending balance for the year divided by two.

Our turnover days remained relatively stable at 129 days in 2019 and 132 days in 2020. In 2021, we ceased the cooperation with Customer A, our former sole distributor in the PRC, and changed our distribution model in the PRC from sole distributorship to a combination of regional distributors and direct sales. For sales to most of these regional distributors in the PRC, we do not grant credit terms to them and generally request for payments upon delivery, which led to a decrease in our trade receivables turnover days to 89 days in 2021. Our turnover days further decreased to 78 days for the first six months of 2022 as a result of increase in sales to distributors in the PRC in such period, which generally paid upon delivery. Our trade receivables turnover days were long primarily due to our diversified sales and distribution

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network in the PRC, Japan, Europe, U.S. and other Asia Pacific regions, as distributors in the PRC are typically required to pay cash on delivery while the local market practices of distributors in other markets generally require a 30 to 180-day credit term.

Trade Payables

The following table sets forth our trade payables as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022 <i>US\$'000</i>
Trade payables	3,506	1,364	2,174	3,875

Our trade payables increased by 77.3% from US\$2.2 million as of December 31, 2021 to US\$3.9 million as of June 30, 2022, primarily due to the increase in payable for certain third party products.

Our trade payables increased by 57.1% from US\$1.4 million as of December 31, 2020 to US\$2.2 million as of December 31, 2021, primarily due to the increase in payable for certain third party products and also the increase in payable for raw material due to the increase in stock.

Our trade payables decreased by 60.0% from US\$3.5 million as of December 31, 2019 to US\$1.4 million as of December 31, 2020, primarily due to the advance/earlier payment to the suppliers with an aim to secure the supply of certain raw materials since shipment may be affected by the COVID-19 pandemic.

The following table sets forth an aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022 <i>US\$'000</i>
0 to 30 days	2,176	1,131	1,797	3,172
31 to 60 days	554	226	299	446
61 to 90 days	305	5	46	184
Over 90 days	471	2	32	73
	3,506	1,364	2,174	3,875

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Most of our suppliers grant us a credit period of 30 to 90 days. The following table sets forth the turnover days for our trade payables for the periods indicated:

	For the year ended December 31,			For the six months ended
	2019	2020	2021	June 30, 2022
	US\$'000	US\$'000	US\$'000	US\$'000
Average balance of trade payables	3,974	2,435	1,769	3,025
Cost of sales	30,895	30,452	35,290	21,137
Turnover days*	<u>47</u>	<u>29</u>	<u>18</u>	<u>26</u>

* Calculated by dividing the average balance of trade payable by cost of sales for the relevant period multiplied by 365 days or 180 days, where applicable. Average balance equals the sum of the beginning balance and ending balance for the year divided by two.

Our trade payables turnover days increased from 18 days in 2021 to 26 days in the first six months of 2022, primarily due to the increase in purchase of certain third party products in June 2022.

Our trade payables turnover days decreased from 47 days in 2019 to 29 days in 2020, and further decreased to 18 days in 2021. This was a result of our advance/earlier payment to the suppliers with an aim to secure the supply of raw material as global shipment has been affected by the COVID-19 pandemic. 98.3% or US\$3.8 million of our trade payables as of June 30, 2022 had been subsequently settled as of November 27, 2022.

Accruals and Other Payables

The following table sets forth our accruals and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000
Accrued expenses	9,996	9,804	8,961	10,153
Accrued [REDACTED]	–	–	[REDACTED]	[REDACTED]
Other payables	<u>3,027</u>	<u>2,957</u>	<u>1,576</u>	<u>1,595</u>
	<u>13,023</u>	<u>12,761</u>	<u>11,866</u>	<u>14,217</u>

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Our accruals and other payables primarily include accruals and payables for clinical trials, employee benefit expenses, legal and professional fees and other miscellaneous expenses. The balances of our accruals and other payables maintained at a stable level from December 31, 2019 to 2021. The balance of our accruals and other payables increased from US\$11.9 million as of December 31, 2021 to US\$14.2 million as of June 30, 2022, primarily due to the increase in accrued [REDACTED].

INDEBTEDNESS

As of December 31, 2019, 2020, 2021 and June 30, 2022, except as disclosed in the table below, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities. Since October 31, 2022, the latest practicable date for the purpose of this indebtedness statement, and up to the date of this document, there had been no material adverse change to our indebtedness. The following table sets forth the components of our indebtedness as of the dates indicated.

	As of December 31,			As of	As of
	2019	2020	2021	June 30,	October 31,
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					<i>(unaudited)</i>
Bank loans					
– Secured	38,462	38,462	–	–	–
– Unsecured	–	1,436	–	–	–
Lease liabilities – Current	1,470	922	1,483	1,396	1,723
Lease liabilities – Non-current	1,285	557	2,499	2,657	2,498
Loans from related companies	–	10,186	–	–	–
Amount due to a related company	187,983	–	–	–	–
Convertible redeemable preferred shares					
– financial liability at amortized cost	–	–	63,711	–	–

Our Directors confirm that we had no material defaults in payment of trade and non-trade payables and borrowings, and had not breached any financial covenants during the Track Record Period and up to the Latest Practicable Date.

FINANCIAL INFORMATION

As of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, the outstanding amount of our interest-bearing bank borrowings was US\$38.5 million, US\$39.9 million, nil, nil and nil, respectively. The weighted average effective interest rate of these short-term bank borrowings were 3.77%, 3.30%, 1.98% and 2.75% per annum for 2019, 2020, 2021 and for the six months ended June 30, 2022, respectively. As of December 31, 2019 and 2020, the secured bank borrowings were secured by (1) certain properties held by our Directors, (2) corporate guarantee given by a related company of our Group and (3) personal guarantee given by a Controlling Shareholder and a related party of our Group.

As of June 30, 2022 and October 31, 2022, our Group had two unutilized banking facilities amounting to US\$15.0 million and US\$30.0 million respectively. Both facilities were secured by (1) the corporate guarantee given by our Company and (2) the personal guarantee given by the Controlling Shareholders. The US\$30.0 million facility was additionally secured by the corporate guarantee given by ONM Group Ltd. Further, such banking facility requires us to maintain a US\$15.0 million deposit as comfort cash with the relevant bank. The comfort cash requirement was subsequently released on November 7, 2022. The corporate guarantee given by ONM Group Ltd. and the personal guarantee given by the Controlling Shareholders will be released upon completion of the [REDACTED].

As of December 31, 2021, the outstanding amount of convertible redeemable preferred shares was US\$63.7 million. Upon fulfillment of the conditions attached in the relevant agreement in April 2022, we reclassified such financial liability to equity.

Our Directors confirm that we had not experienced any difficulty in obtaining bank loans, default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Lease Liabilities

The following table below sets forth our lease liabilities as of December 31, 2019, 2020 and 2021, and June 30, 2022:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current	1,470	922	1,483	1,396
Non-current	1,285	557	2,499	2,657
	<u>2,755</u>	<u>1,479</u>	<u>3,982</u>	<u>4,053</u>

FINANCIAL INFORMATION

We lease office premises, warehouses, office equipment and motor vehicles. Rental contracts are typically made for fixed periods of two to five years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. We also obtained the land use right through lease contract with local government in the PRC with 50 years term.

Convertible Redeemable Preferred Shares

Our convertible redeemable preferred shares outstanding as of June 30, 2022 was nil, as the conditions attached to relevant agreement have been fulfilled and all outstanding convertible redeemable preferred shares have been reclassified to equity.

The series A preferred shares are hybrid instruments which contain financial liability hosts and embedded derivatives. The financial liability hosts have been accounted for as financial liability carried at amortized cost. The embedded derivatives of series A preferred shares have been bifurcated from the financial liability hosts and measured at fair value at inception date with changes in fair value recognized in the consolidated statements of profit or loss. The series A-2 preferred shares are also hybrid instruments which contain financial liability hosts and embedded derivatives. The financial liability hosts have been accounted for as financial liability carried at amortized cost. The embedded derivatives of series A-2 preferred shares have been bifurcated from the liability hosts and measured at fair value at inception date with changes in fair value recognized in the consolidated statements of profit or loss. Upon the completion of the Reorganization on September 28, 2021, the financial liability portion and embedded derivative portion of series A preferred shares was derecognised; whereas of series A-2 preferred shares was reclassified to equity, and the difference between the carrying amounts and the fair values of the financial liabilities amounting to US\$0.6 million was recorded in profit or loss. For Series A Preferred Shares, a new liability at amortized cost amounting to US\$62.4 million was recognized upon the completion of the Reorganization on September 28, 2021; whereas for Series A-2 Preferred Shares, amounting to US\$167.2 million was reclassified to equity upon the completion of the Reorganization on September 28, 2021.

Upon completion of the [REDACTED], all Preferred Shares will be converted into our Ordinary Shares.

FINANCIAL INFORMATION

The movements of the financial liability hosts and the bifurcated embedded derivatives of the Series A and Series A-2 Preferred Shares are set out as below:

	Financial liability at amortized cost <i>US\$'000</i>	Bifurcated embedded derivatives <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2021	–	–	–
Issuance of Series A Preferred Shares	34,482	518	35,000
Issuance of Series A-2 Preferred Shares	165,895	1,605	167,500
Transaction costs incurred	(3,535)	–	(3,535)
Accrued interest	4,853	–	4,853
Fair value losses	–	14,397	14,397
Loss on derecognition of financial liability charged to profit or loss	559	–	559
Derecognition of Series A Preferred Shares upon completion of the Reorganization	(35,238)	(15,006)	(50,244)
Derecognition of Series A-2 Preferred Shares upon completion of the Reorganization	(165,679)	(1,514)	(167,193)
Recognition of Series A Preferred Shares upon completion of the Reorganization	<u>62,374</u>	<u>–</u>	<u>62,374</u>
At December 31, 2021	<u><u>63,711</u></u>	<u><u>–</u></u>	<u><u>63,711</u></u>
At January 1, 2022	63,711	–	63,711
Accrued Interest	1,336	–	1,336
Reclassification of Series A Preferred Shares to equity	<u>(65,047)</u>	<u>–</u>	<u>(65,047)</u>
At June 30, 2022	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

CAPITAL COMMITMENTS

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had capital commitment of nil, nil, US\$74,000 and US\$210,000, respectively.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

We did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, or other similar indebtedness, or hire purchase commitments, liabilities under acceptances or acceptance credits, any guarantees or other material contingent liabilities.

We are not currently involved in any material legal, arbitration or administrative proceedings that if adversely determined, would materially and adversely affect our financial position or results of operations, although there can be no assurance that this will be the case in the future.

Our Directors have confirmed that except as disclosed in the paragraph headed “– Indebtedness” in this section, there has not been any material changes in our indebtedness or contingent liabilities as of the Latest Practicable Date.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods and as of the dates indicated.

	For the year ended/as of December 31,			For the six months ended/as of June 30	
	2019	2020	2021	2021	2022
				<i>(unaudited)</i>	
Gross profit margin ⁽¹⁾	67.9%	65.6%	69.7%	70.7%	69.3%
Net profit margin ⁽²⁾	7.2%	8.0%	N/A ⁽⁷⁾	5.8%	11.7%
Adjusted net profit margin (non-HKFRS measure) ⁽³⁾	7.2%	8.0%	18.3%	19.2%	19.8%
Return on total assets ⁽⁴⁾	7.3%	7.1%	N/A ⁽⁷⁾	5.4%	5.9%
Current ratio ⁽⁵⁾	0.5 times	1.3 times	14.3 times	2.1 times	10.8 times
Interest coverage ratio ⁽⁶⁾	15.9 times	6.2 times	0.8 times	5.8 times	7.9 times

(1) Calculated by dividing gross profit for the year/period by total revenue.

(2) Calculated by dividing profit for the year/period by total revenue.

(3) Calculated by dividing the adjusted profit for the year/period (non-HKFRS measure) by total revenue.

(4) Calculated by dividing profit for the year by the average of total assets at the beginning and the end of each year/period. For return on total assets for the six months ended June 30, 2021 and 2022, the numbers are annualized by dividing the profit for these periods by 180 and multiplying it by 360, and then dividing it by the average of total assets at the beginning and end of the period.

(5) Calculated by dividing total current assets by total current liabilities.

(6) Calculated by dividing profit before income tax and interest expenses by interest expense.

(7) We recorded net loss during the year.

FINANCIAL INFORMATION

Gross Profit Margin

Please refer to the section headed “Financial Information – Description of Consolidated Statements of Profit or Loss” in this document.

Net Profit Margin

Please refer to the section headed “Financial Information – Results of Operations” in this document.

Return on Total Assets

Our return on total assets increased from nil in 2021 to 5.9% in the first six months of 2022, primarily reflecting the increases in our net profit in such period. Our return on total assets in 2021 was nil, primarily attributable to the impact of fair losses in connection with our convertible redeemable preferred shares. Our return on total assets was 7.3% in 2019, 7.1% in 2020, primarily reflecting the increases in our net profit in relevant periods.

Current Ratio

Our current ratio decreased from 14.3 times as of December 31, 2021 to 10.8 times as of June 30, 2022, primarily attributable to the purchase of the Commodity Linked Fixed Rate Note of US\$20.0 million, which was classified as a non-current asset.

Our current ratio increased significantly from 1.3 times as of December 31, 2020 to 14.3 times as of December 31, 2021, primarily attributable to increased cash and cash equivalents in connection with our Series A and Series A-2 financing.

Our current ratio increased from 0.5 time as of December 31, 2019 to 1.3 times as of December 31, 2020, primarily attributable to the capitalization of an amount due to a related company.

Interest Coverage Ratio

Our interest coverage ratio increased from 0.8 times as of December 31, 2021 to 7.9 times as of June 30, 2022, primarily attributable to our increased profit before income tax, as well as the decreased interest expenses arising from the unwinding of interests on convertible redeemable preferred shares.

Our interest coverage ratio decreased from 6.2 times as of December 31, 2020 to 0.8 times as of December 31, 2021, primarily attributable to our decreased profit before income tax due to fair value loss of convertible redeemable preferred shares, as well as the higher interest expenses due to unwinding of interests on convertible redeemable preferred shares.

FINANCIAL INFORMATION

Our interest coverage ratio decreased from 15.9 times as of December 31, 2019 to 6.2 times as of December 31, 2020, primarily attributable to the increased interest expenses due to an increase in the average bank loan balances.

[REDACTED]

WORKING CAPITAL

We have positive operating cash flows in 2019, 2020, 2021 and for the six months ended June 30, 2022.

Taking into account the financial resources available to us including our cash and cash equivalents on hand, our operating cash flows, and the estimated net [REDACTED] from the [REDACTED], our Directors, after due and careful inquiry, confirm that the working capital available to us is sufficient at present and for at least the next 12 months from the date of this document. Based on the discussion with our Directors and the written confirmation from the Company in relation to the working capital sufficiency, and taking into account the working capital statement and memorandum on working capital forecast as well as the Company's cash and cash equivalents, operating cash inflow and net [REDACTED] from the [REDACTED], the Joint Sponsors concur with the view of our Directors regarding the working capital sufficiency of our Group.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our transactions with related parties primarily include (i) payment of remuneration to key management personnel, (ii) transactions with certain of our related parties in connection with our operations, (iii) year-end balances with related parties, and (iv) security interest and guarantees provided by our directors and controlling shareholders relating to our short-term bank borrowings, as described in Note 39 to the Accountant's Report attached as Appendix I to this document.

FINANCIAL INFORMATION

We have settled the bank loans relating to the security interest and guarantees provided by our directors and controlling shareholders. In addition, we intend to settle our balances with related parties prior to the [REDACTED].

Our Directors believe that our related party transactions during the Track Record Period were conducted on an arm’s length basis and entered into in the ordinary course of business, and would not distort our track record results or make our historical results not reflective of our future performance.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to credit, liquidity and foreign currency risks in the ordinary course of business. We describe below our exposure to these risks, and the financial risk management policies and practices we use to manage these risks.

Credit Risk

Our credit risk is primarily attributable to trade and other receivables. We typically do not require collateral from customers. For external receivables, we have policies in place to assess the credit worthiness of our customers to ensure that sales of products are made to customers with an appropriate credit history. Besides, our management monitors the credit risk of our Group on an ongoing basis by reviewing the debtors’ aging to minimize our exposure to credit risk. As at December 31, 2019, 2020 and 2021 and June 30, 2022, we had concentration of credit risk given that our largest customer accounted for 12%, 7%, 2% and 11% respectively, of our total trade receivables.

Liquidity and Interest Rate Risk

Our interest rate risk arises from bank borrowings, loan from related companies and lease liabilities. Our bank borrowings obtained at variable rates expose us to cash flow and interest rate risks.

Loan from related companies and lease liabilities were obtained at fixed rates, and therefore our Directors are of the opinion that our interest rate risk exposure is low.

As at December 31, 2019 and 2020, if interest rates on bank borrowings had been 100 basis points higher or lower with all other variables held constant, the impact on our profit for the year would have been approximately US\$0.3 million and US\$0.3 million lower or higher, respectively.

Bank deposits at variable rates expose us to cash flow interest rate risk. We manage our interest rate risk by performing regular reviews and continually monitoring its interest rate exposures. We have not used any interest rate swaps to hedge our exposure to interest rate risk.

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Our Directors are of the opinion that as at December 31, 2019, 2020, 2021 and June 30, 2022, any reasonable changes in interest rates on bank deposits would not result in a significant change in our results of operations. Accordingly, no sensitivity analysis is presented for interest rate risk arising from bank deposits.

Foreign Currency Risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar (“**HK\$**”), Renminbi (“**RMB**”), Japanese Yen (“**JPY**”) and Euro (“**EUR**”). Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity’s functional currency.

Our management manages the foreign exchange risks by performing regular review and monitoring our foreign exchange exposure. Our management has also set up a policy to require our Group Companies to manage their foreign exchange risk against their functional currency.

The table below summaries the changes in our profit or loss in response to reasonably possible changes in the foreign exchange rates to which we have significant exposure at the balance sheet date. The analysis has been determined assuming that the general depreciation trend in foreign exchange rates against functional currency in respective countries had occurred at the balance sheet date and that all other variables remain constant.

Functional currency	Foreign currency	As at December 31, 2019		As at December 31, 2020		As at December 31, 2021		As at June 30, 2022	
		Hypothetical Appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss	Hypothetical Appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss	Hypothetical Appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss	Hypothetical Appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss
			US\$’000		US\$’000		US\$’000		US\$’000
US\$	RMB	+/- 5%	(117)/117	+/- 5%	(136)/136	+/- 5%	(67)/67	+/- 5%	(6)/6
JPY	US\$	+/- 5%	(703)/703	+/- 5%	(919)/919	+/- 5%	(375)/375	+/- 5%	(1,024)/1,024
EUR	US\$	+/- 5%	(34)/34	+/- 5%	(118)/118	+/- 5%	41/(41)	+/- 5%	87/(87)

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as of June 30, 2022.

FINANCIAL INFORMATION

DIVIDENDS AND DIVIDEND POLICY

We retain distributable profits not distributed in a given year and make them available for distribution in subsequent years. We generally do not distribute dividends in a year in which we do not have any distributable profits. Shareholders must also approve the payment of any dividends at a shareholders’ general meeting.

The Board of Directors is responsible for submitting proposals for dividend payments to the shareholders’ general meeting for approval. The determination of whether to pay a dividend and in which amount is based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors deems relevant. We have not declared or paid any dividend during the Track Record Period. Any future declarations and payments of dividends will be at the absolute discretion of our Directors. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. Currently, we do not have any dividend policy or intention to declare or pay any dividends in the near future.

DISTRIBUTABLE RESERVES

As of June 30, 2022, our Company did not have any distributable reserves.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2022, the date of our latest audited consolidated financial statements, and there has been no event since June 30, 2022 which materially affects the information in the Accountant’s Report in Appendix I to this document.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details of our unaudited pro forma adjusted consolidated net tangible assets, please refer to Appendix II to this document.